Peachtree Accounting

Back to Basics

HANDBOOK

Exclusively for the

Macintosh

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First Edition

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Accounting Principles

1

ROBERT N. ANTHONY is the Pross Graham Walker Professor of Management Control, Emeritus, Graduate School of Business Administration, Harvard University. He is also a Director of Carborundum Company and Warnaco, Inc., and a trustee of Colby College.

A former President of the American Accounting Association, Dr. Anthony has also been Assistant Secretary of Defense, Controller. For this work, he received the Award for Distinguished Leadership of the Federal Government Accountants Association and the Department of Defense Medal for Distinguished Public Service.

He is the author or co-author of 14 books, including *Management Accounting: Texts and Cases,* now in its fifth edition and used extensively in university courses and management development programs throughout the world. Dr. Anthony's books have been translated into eight languages and over two million copies have been sold.

Accounting Principles

Every organization needs good records that show where its money comes from, where it goes, and how the organization is performing financially. The system used for this purpose is called the organization's accounting system.

Until recently, much of the work in keeping accounting records was drudgery. It involved copying numbers from one form to another, adding up columns of numbers, summarizing these numbers, and constantly double checking to prevent errors. With the introduction of computers, large companies could free their bookkeepers from much of this drudgery. The computer did the copying, adding, summarizing, and error checking more quickly and less expensively than the bookkeepers whom it replaced.

Microcomputers are now so inexpensive that even a small organization—one in which the manager does the accounting personally, perhaps with some part-time help—can now obtain these advantages. However, computers only do this work if they are properly programmed.

A good program lets the computer take over the drudgery of accounting for you. Once you have entered the information, the computer rearranges and summarizes so you can understand what has happened in your organization.

Back to Basics performs this work much faster than a person. Equally important to speed is the computer's ability to operate without making mistakes. In a manual accounting system, errors occur in copying numbers from one place to another, and in adding or subtracting. As a result, the bookkeeping task is not finished (or, "the books will not balance") until these errors are located and corrected. The computer does not make these errors. After you enter the data correctly, you can rely on the computer to produce accurate reports. In fact, in Back to Basics, the computer helps prevent you from making errors that often occur when entering data.

Reports on how the organization has performed and how it stands financially are the end products of an accounting system. You obtain these financial statements by summarizing the detailed data entered whenever an event occurs that has an effect on the organization's

financial situation. Once you decide what type of summary is most useful to you, the program produces these reports monthly, or as needed, simply by pressing a few keys.

An accounting system operates according to well-established rules, called generally accepted accounting principles. In order to record data correctly and to understand the meaning of the numbers in the financial statements, you need to be familiar with these principles. The next section is an overview of these principles.

To be comfortable with your accounting system, you need to understand how the computer program operates. This overview explains the general principles that govern accounting. These principles apply generally to accounting in all types of organizations (except certain government agencies). A corner drugstore has an accounting system that differs in detail from that of Sears, Roebuck and Co., but the general principles are the same.

You also need to understand some technical accounting terms. Some of these terms have different meanings in accounting than they have in everyday use. For example, the term *net worth* does *not* mean what something is worth. You can be misled if you are not familiar with these differences.

This overview contains three sections. The first describes the general principles of accounting. The second shows how you enter accounting transactions into the accounting system. The third tells how accounting information is used.

To start you need to understand three fundamental accounting ideas: (1) the accounting entity, (2) money measurement, and (3) double entry.

The Accounting Entity

A set of accounts applies to a single organization, called the *accounting entity.* The accounting entity may consist of one person, an unincorporated business with an owner and a few employees, a partnership, a business corporation. Nonprofit organizations of all types—hospitals, welfare organizations, condominium associations, clubs, schools,—are also accounting entities.

The accounts of the entity must be kept separately from those of persons outside the entity, including its owners. Since a corporation is legally a separate person, this separation is relatively easy to make. For unincorporated entities, however, problems often arise in keeping the affairs of the entity separate from those of its owners. The grocer who takes home food for the family should record this fact in his accounts, even though he is its sole owner. As an individual he is no

better off whether the food is in the store or in the kitchen. But accounting records show that the entity is worse off because groceries have been taken.

Money Measurement

Accounts are kept in terms of money, and the only arithmetic used in accounting is addition and subtraction. You can add one amount to another or subtract one amount from another, only if the amounts have a common denominator. This denominator is money.

If things are not stated in terms of money, accounting can't record them, which means that accounting records can't tell you everything about the entity. For example, accounting won't tell you about a manager's ability, the entity's reputation, customer loyalty, the value of a new product, or other information that cannot be stated in dollar amounts. But accounting tells you more about the entity's performance and financial well-being than any other source of information.

Double Entry

The ideas of keeping accounting records for an entity and of measuring money are easy to understand. The third idea, double entry, is more complicated. You need to understand this idea clearly because the whole of accounting is based on it.

The main two end products of an accounting system are the income statement and the balance sheet. The income statement reports the entity's financial performance during an accounting period. The balance sheet reports its financial status at a specific point in time. The income statement is by far the more important of the two, but the idea of double entry is easier to understand if you start with the balance sheet.

Balance Sheet

A balance sheet shows the financial position of the accounting entity on a specific date. A balance sheet is always dated as of a certain date. For example, the balance sheet as of December 31, 1984 shows the entity's financial position as of the end of 1984. A balance sheet as of January 31 shows the financial position as of the end of January.

We shall start to prepare a balance sheet for Scott Company, using the form given below:

SCOTT COMPANY
Balance Sheet as of January 31

Assets	Equities

Note that the balance sheet has two sides. The left-hand side is called the *asset* side. Amounts listed on that side show the resources owned by the entity. The right-hand side is called the *equities* side.

The amounts shown on the right-hand side can be explained in either of two ways, both are correct. In one view, equities are *claims* against the assets. In the other view, equities show the amounts of funds that have been supplied to the entity from various sources. As you proceed, you may find that one of these views makes more sense to you than the other. Use that one.

How Transactions Affect the Balance Sheet

The following balance sheet illustrates how certain financial events affect it. Each event recorded in the accounting records is called a *transaction*. All these events occur in January.

The first event is the formation of a new entity. Assume that the owners of Scott Company invest $10,000 cash. As a result, Scott Company now has an asset of $10,000. You record this $10,000 as the item, Cash, on the assets side of the balance sheet. The owners have furnished this resource of $10,000, and you record this fact on the equities side of the balance sheet; the accounting term is *Paid-in Capital.* After you record this transaction, the balance sheet looks like the following:

SCOTT COMPANY
Balance Sheet as of January 31

Assets		Equities	
Cash	$10,000	Paid-in capital	$10,000

Second, assume that Scott Company uses $2,000 of its cash to buy merchandise to sell to customers. The accounting name for merchandise that an entity owns is *Inventory.* You record the $2,000 decrease in cash by making the Cash item $8,000, and you record the new asset Inventory in the amount of $2,000. After you record the transaction, the balance sheet looks like the following:

SCOTT COMPANY
Balance Sheet as of January 31

Assets		Equities	
Cash	$ 8,000	Paid-in capital	$10,000
Inventory	2,000		
Total assets	$10,000	Total equities	$10,000

This transaction increases one asset and decreases another asset by the same amount, so the total of the assets is unchanged.

The next transaction is for office furniture that the company bought. The total cost was $5,000, and Scott Company paid $1,000 cash and agreed to pay $4,000 to the vendor in two installments. By providing the asset furniture to Scott Company without receiving the full amount of cash in return, the vendor in effect furnished funds to the company. Put another way, the vendor has a claim against the assets of $4,000. An outside party (other than an owner) who has a claim against the entity is called a *creditor.* The amount of a creditor's claim is called a *liability.* The name of the liabilities arising from vendors' claims is *accounts payable.*

This transaction decreases Cash by $1,000, making it $7,000. Next, record the new asset, Furniture, $5,000. Finally, you increase the new equities item, Accounts Payable, $4,000. The balance sheet looks like the following:

SCOTT COMPANY
Balance Sheet as of January 31

Assets		Equities	
Cash	$ 7,000	Accounts payable	$ 4,000
Inventory	2,000	Paid-in capital	10,000
Furniture	5,000		
Total assets	$14,000	Total equities	$14,000

This transaction increases both assets and equities, but total assets still equal total equities.

The fourth transaction involves the company paying $3,000 in cash later to the vendor who had the claim of $4,000. Record the $3,000 decrease in cash by reducing Cash from $7,000 to $4,000. Record the fact that the liability to the vendor is reduced by $3,000 by decreasing Accounts Payable, from $4,000 to $1,000. After you record this transaction, the balance sheet looks like the following:

SCOTT COMPANY
Balance Sheet as of January 31

Assets		Equities	
Cash	$ 4,000	Accounts payable	$ 1,000
Inventory	2,000	Paid-in capital	10,000
Furniture	5,000		
Total assets	$11,000	Total equities	$11,000

Note: The total assets remain equal to the total equities.

The four previous transactions illustrate the main types of transactions affecting balance sheet:

- The first increases assets and equities by the same amount.
- The second increases one asset and decreases another asset by the same amount, leaving total assets unchanged.
- The third increases one asset, decreases another asset, and increases a liability, but the total of the two sides of the balance sheet remain equal.
- The fourth decreases both an asset and a liability by the same amount, so the total of the two sides remained equal.

Keep in mind the following principles:

1. Each transaction affects at least two items. The third transaction affects more than two items.
2. After a transaction is recorded, the total of the assets side of the balance sheet always equals (or "balances") the total of the equities side. This is why the statement is called a *balance sheet.*

The double entry principle is based on each accounting transaction affecting at least two items, and after it is recorded, the total of the assets side of the balance sheet equals the total of the equities side. This principle is often called the fundamental accounting equation:

Assets = Equities

The reasoning behind this principle depends on how you view the balance sheet. Either of the two following explanations is correct:

1. If equities are claims against assets, then the total that various parties claim cannot be greater than the amount of the assets available. Nor can the total claim be less than the amount available

because whatever is not claimed by other parties is claimed by the owners. Therefore, the amounts to be claimed (assets) equals the amounts of the claims (equities).

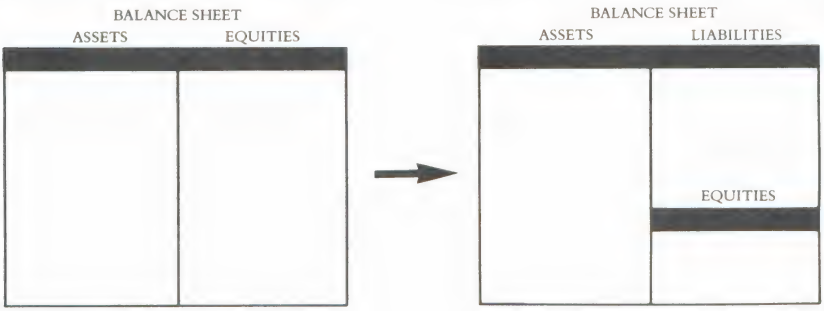
2. If equities are the source of funds, and assets are the form in which these funds are invested, then the amount invested cannot exceed the funds supplied for investment. Nor can the total invested be less than the amount supplied because all funds are invested. Therefore, the funds invested in various resources (assets) equals the funds supplied (equities).

Balance Sheet Format

Certain rules determine how the balance sheet items are listed.

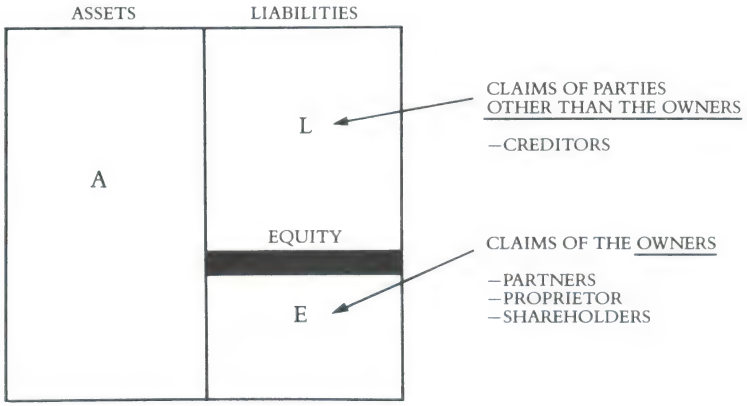
On the assets side, Cash is usually listed first. (*Cash* includes all the money owned by the entity, whether in a cash drawer or in a bank account.) The other assets are listed in the order of their nearness to cash, that is, how soon they are likely to be turned into cash. Inventory, for example, is likely to be sold sooner than the entity's furniture. As you add asset items, keep this rule in mind.

The right-hand side is divided into two main sections. One is called *liabilities,* and the other *equity.* From here on the name used for the heading of these two sections is *Liabilities and Equity.*



Liabilities are claims of parties other than the owners against assets. The order in which liabilities are listed corresponds to how soon each must be paid.

In a profit-oriented entity, the *equity* section shows the claims of the owners. These are the shareholders in a corporation, the partners in a partnership, and the proprietor of a one-owner entity. In a nonprofit entity, the equity section is the interest of the entity itself, the residual amount after the liabilities have been satisfied. Since the owners cannot claim assets until after the claims of outside parties have been satisfied, the equity section is listed below the liabilities.



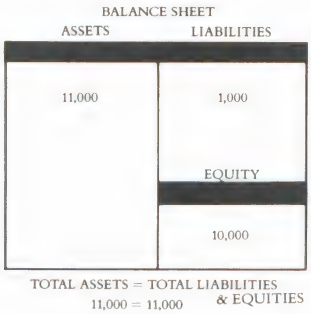
Rather than listing the two sides of the balance sheet side by side, Back to Basics lists the assets section before the liabilities and equity section. This is done because the names of some items are too long to fit in a side-by-side format. Thus, the computer would print the balance sheet you developed in the preceding section as follows:

SCOTT COMPANY
Balance Sheet as of January 31

Assets		
Cash	$ 4,000	
Inventory	2,000	
Furniture	5,000	
Total assets		$11,000
Liabilities and Equity		
Liabilities		
Accounts payable	$ 1,000	
Total liabilities		$ 1,000
Equity		
Paid-in capital	$10,000	
Total equity		$10,000
Total liabilities and equity		$11,000

Because the right-hand side of the balance sheet is divided into two main sections, the fundamental accounting equation is often stated as:

Assets = Liabilities + Equity



Debit and Credit

You have probably seen the words *debit* and *credit* in connection with accounting. At first, these words may seem mysterious, but they actually provide a convenient way of applying the double entry principle.

Each of the items shown on the balance sheet is an *account.* In the accounting system, there is an account for every item that you want to keep track of. Back to Basics already has a list of commonly used accounts called the *Chart of Accounts,* that you can add to or change to suit your own needs.

Increases and Decreases: In the first examples given earlier, you started the Cash account by entering the amount of $10,000. In other words, you increased the amount in the account from zero to $10,000. Thereafter, you changed the amount in an account in one of two ways—you increased it or you decreased it. This is true for every account; you start the account by entering an amount which increases it from zero, and thereafter you change the amount either by increasing it or decreasing it. Increases are additions, and decreases are subtractions. The *only* arithmetic operations in accounting are addition and subtraction.

The T Account

One way to illustrate how accounts increase or decrease is to compare an account to the letter "T".

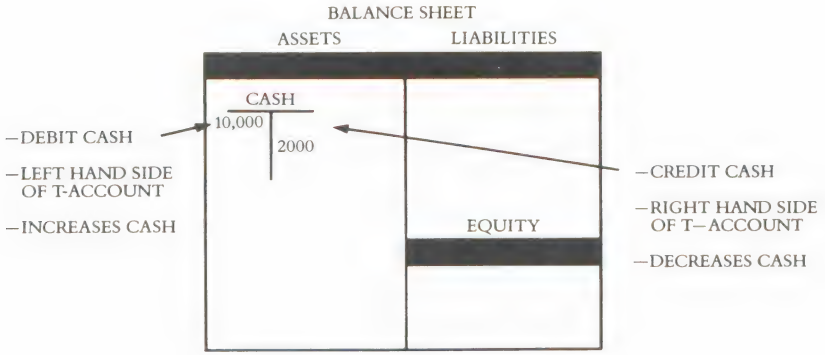
Increases are recorded on one side and decreases on the other side. Since cash is an asset, and assets are on the left-hand side of the balance sheet, you record increases in cash on the left-hand side of the T-account. You record decreases on the right-hand side. The following example shows how the entries to cash in the four examples given earlier appear on the T-account:

Cash	
Left side	Right side
(Increases)	(Decreases)
10,000	2,000
	1,000
	3,000
10,000	6,000

The amount in the Cash account after the transactions have been entered is its *balance*. The balance is the difference between the increases and decreases, in this case $4,000 ($10,000 – $6,000). In the accounts, the dollar ($) is not shown. All the amounts are dollars.

Meaning of Debit and Credit

You can instruct Back to Basics to add $10,000 to the Cash account by stating, "Enter $10,000 on the left-hand side of the Cash account." You could instruct it to subtract $2,000 by stating, "Enter $2,000 on the right-hand side of the Cash account." The words "debit" and "credit" are shorter ways of giving these instructions. *Debit* refers to the left-hand side of an account, and *Credit* to the right-hand side. To debit means to enter an amount on the left-hand side, and to credit means to enter an amount on the right-hand side.



To record an increase in cash, you make an entry on the left-hand side of the Cash account. For an increase of $10,000, you tell the system, "Debit Cash, $10,000." For a decrease of $2,000, you instruct, "Credit Cash, $2,000." These rules apply to *all* asset accounts. To increase an asset account, you debit it; to decrease an asset account, you credit it.

Rules for Debit and Credit

We have stated the basic accounting equation:

Assets = Liabilities + Equity

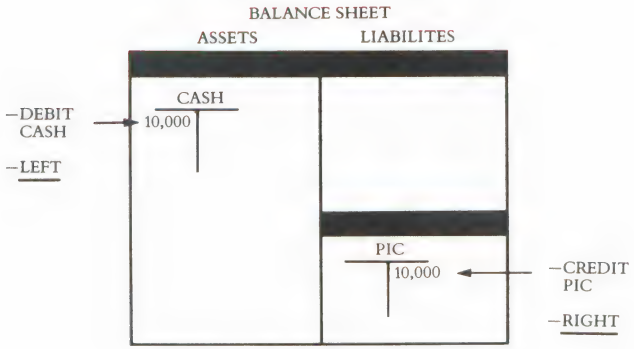
There is also another accounting equation:

Debits = Credits

This equation applies to every transaction. It is a useful error-checking device because if you try to record a transaction in such a way that the debits do *not* equal the credits, you know that something is wrong.

For this equation to work, the rules for liabilities and equity must be the opposite of the rules for assets. The reason for this can be illustrated by the first transaction given earlier. In that transaction, Cash was increased $10,000, and Paid-in Capital, an equity account, was also increased by $10,000. The instruction for the increase in Cash is Debit Cash, $10,000. The instruction for the increase in Paid-in Capital *cannot* be Debit Paid-in Capital, $10,000.

If this were done, there would be debits totaling $20,000 and no credits; therefore, the rule for Paid-in Capital has to be, *record increases as credits.* If you follow this rule, the debit of $10,000 to Cash equals the credit of $10,000 to Paid-in Capital; that is, debits = credits. If increases in Paid-in Capital are credits, then decreases must be debits.



These rules apply to *all* liability and equity accounts. To increase a liability or equity account, you credit it; to decrease a liability or equity account, you debit it.

To remember these rules think of the accounts in relation to the balance sheet. You always enter debits on the left-hand side of the account. Assets are on the left-hand side of the balance sheet. As a result, increases in assets are debits. Credits are always entered on the right-hand side of the account. Liabilities and equity items are on the right-hand side of the balance sheet. So, increases in liability and equity accounts are credits.

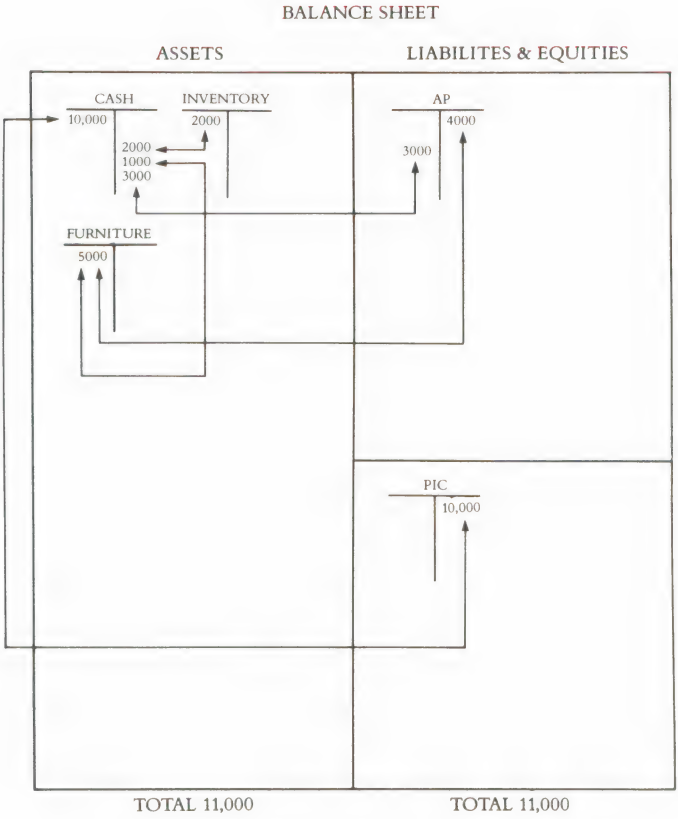
The rules for debit and credit are as follows:

- To increase an asset account, debit it.
- To decrease an asset account, credit it.
- To increase a liability or equity account, credit it.
- To decrease a liability or equity account, debit it.

Apply these rules to the four transactions given earlier, and you will see that in each transaction debits equal credits. The following examples use the customary format in accounting; the debit portion

of the entry appears first and the amount appears in a left-hand column; the credit portion is given next, indented, and the amount appears in a right-hand column.

	Debit	Credit
1. The entity received $10,000 cash from its owners:		
Cash	10,000	
Paid-in Capital		10,000
2. Increased Inventory and decreased Cash:		
Inventory	2,000	
Cash		2,000
3. Bought furniture, decreasing Cash and increasing Accounts Payable (a liability):		
Furniture	5,000	
Cash		1,000
Accounts Payable		4,000
4. Paid cash to decrease Accounts Payable:		
Accounts Payable	3,000	
Cash		3,000



There is no exception to the rule that debits must equal credits. For this reason, Back to Basics will not let you record a transaction in which debits do not equal credits. If you try to do so, the system will call attention to the error, and then you must make the necessary correction.

Debit is abbreviated as *Dr.*, and credit as *Cr.*

Measurement of Income

The period covered by a set of financial statements is called the *accounting period.* For most entities, the official accounting period is one year, usually the calendar year, ending on December 31. Some entities find that another 12-month period, such as the year ending June 30, is more useful.

The manager of an organization cannot wait for 12 months to find out how the organization is performing. Therefore, the program is set up to provide you with financial statements every month. These are called *interim statements,* to distinguish them from the annual statements.

The Meaning of Income

A profit-oriented business tries to make a profit, while a nonprofit organization tries to operate so that it breaks even during an accounting period. In either case, success or failure is reflected by changes in the equity section of the balance sheet. If a business operates profitably during an accounting period, its equity increases by the amount of the profit. If a nonprofit organization breaks even, its equity remains unchanged.

However, the change in equity on the balance sheet does not tell anything about *why* operations during an accounting period were or were not profitable. You use the income statement for this purpose as it summarizes the changes in equity that occurred during an accounting period due to the operating activities during that period.

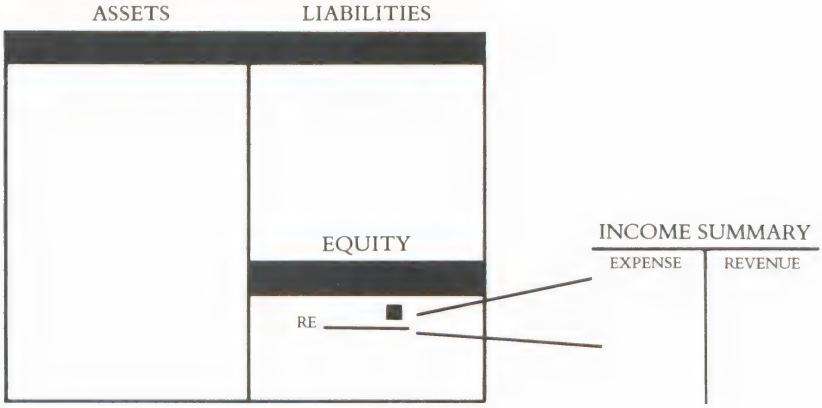
The income statement reports for a *period* of time, such as a month or a year. The balance sheet reports the entity's financial condition as of *one moment.*

Rules for Revenues and Expenses

Changes in accounts must be either increases or decreases. *Increases* in equity associated with operations during a period are called *revenues,* and *decreases* are called *expenses.* The difference between the revenues of a period and the expenses of a period is the *income*

for the period (also called profit or earnings). If the difference between revenues and expenses is negative, you have a *loss.*

The accounting system contains an account for each type of revenue—for example, Sales Revenue—and for each type of expense—for example, Salary Expense. The rules for debits and credits to these accounts are the same as those for equity accounts because revenue and expense accounts are subdivisions of equity.



Remember that increases in equity are credit entries. Since revenues increase equity, revenues are *credits.* Decreases in equity are debit entries. Since expenses decrease equity, expenses are *debits.* To summarize:

- To record *revenues, credit* a revenue account
- To record *expenses, debit* an expense account

These two rules, together with the four given earlier, are the complete list of debit and credit rules. (There is one minor exception. It relates to an unusual type of account that is called a *contra* account, and will be explained later.) From here on, we are applying these rules to a variety of transactions. We are *not* developing new rules.

You can record any transaction, no matter how complicated, by using these rules.

The word "charge" is often used instead of "debit," especially with reference to expense transactions. For example, "Charge $100 to supplies expense."

Summary of Debit and Credit Rules

The six rules for debit and credit follow:

- To *increase* an *asset* account, *debit* it.
- To *decrease* an *asset* account, *credit* it.
- To *increase* a *liability* or *equity account, credit* it.
- To *decrease* a *liability* or *equity account, debit* it.
- To record *revenues, credit* a revenue account.
- To record *expenses, debit* an expense account.

The accompanying diagram may help you remember these rules. It shows the types of accounts, with each type being divided into a left-hand and a right-hand side. Debit entries are *always* made to the left-hand side of the account. However, debits to asset and expense accounts are increases, while debits to liability and equity accounts are decreases. Credits are the opposite.

Rules for Debit and Credit

Assets (Example: Cash)		=	**Liabilities** (Example: Accounts Payable)		+	**Equity** (Example: Paid-in Capital)	
Debit Increase +	Credit Decrease −		Debit Decrease −	Credit Increase +		Debit Decrease −	Credit Increase +

Temporary Subdivisions of Equity

Revenues (Example: Sales)		**Expenses** (Example: Salary)	
Debit	Credit Increase +	Debit Increase +	Credit

The Accrual Principle

All managers want to know how their entities are performing financially. The income statement gives this information. The measurement of an entity's income is the most important function of accounting.

Income measures the change in equity associated with the operations of the period. Some changes in equity are obvious. If the entity pays $200 cash in January for plumbing repairs completed in January, its cash decreases by $200, and its equity decreases by $200, because of the repairs expense. You would record this transaction as follows:

Debit Repairs Expense	200	
Credit Cash		200

However, some expenses are not accompanied by a decrease in cash in the same accounting period. Also, some revenues do not increase cash in the same period. Recording these noncash transactions correctly is the most difficult problem in accounting. They are governed by the *accrual principle.*

The accrual principle stems from the need for maintaining the fundamental equation: **Assets = Liabilities + Equity.** In the previous example of the plumbing repairs, Cash decreases by $200. Therefore, to maintain the equation, there must be a debit to equity of $200. A debit to equity is an expense, in this case Repairs Expense.

For transactions like these, you should ask, "Does the transaction change equity?" If so, and the change is associated with operations for the period, there is either a credit to revenue (if equity increases) or a debit to expense (if equity decreases). Such transactions affect income.

A change in cash is not necessarily associated with a change in equity. For example, in an earlier transaction the entity used $2,000 cash to acquire inventory. In this transaction, one asset, Cash, decreases by $2,000, and another asset, Inventory, increases by $2,000. The total of assets was unchanged, so there was no change in equity and no effect on income. If, by mistake you record a $2,000 expense for this transaction in addition to the two changes in assets, debits would not equal credits.

Similarly, the payment of an amount owed to a vendor does not affect equity. It results in a decrease in cash and an equal decrease in a liability.

The initial $10,000 contribution of capital did add to equity, but it was not associated with operations, so it does not appear on an income statement.

Accrual Principle: Expenses

There are two types of transactions in which a cash disbursement and the related expense occur in different accounting periods:

1. The cash disbursement is made *prior to* the incurrence of expense. At the time cash is paid out, an asset, Prepaid Expense is created.

2. The cash disbursement is made *after* the expense is incurred. At the time the expense is incurred, a liability called Accrued Liability is created.

Prepaid Expenses

Assume that in January Scott Company paid $900 cash for a supply of fuel oil that it will use in heating its premises for the next several months. In January, Cash decreases by $900 and there is an equal increase in an asset, Fuel Oil Inventory. In January there was no decrease in equity and no expense. The entry for January would be as follows:

Dr. Fuel Oil Inventory	900	
Cr. Cash		900

From here on, the abbreviations, Dr. and Cr. are used for Debit and Credit.

The expense occurs in the months when the fuel oil is used. Assume that $400 of fuel oil was used in February, $300 in March, and $200 in April. These amounts are expenses in those months, and the Fuel Oil Inventory account decreases by an equal amount. The entry for February follows:

Dr. Fuel Oil Expense	400	
Cr. Fuel Oil Inventory		400

Each month you enter a credit to the asset account and a debit to Fuel Oil Expense. The effect on the balance sheet and on the income statement in each month is as follows:

	Expense	Asset, End of Month
January	$ 0	$900
February	400	500
March	300	200
April	200	0

The same principle applies to any asset used in future periods. The purchase of insurance protection creates an asset, Prepaid Insurance. As the insurance protection expires, there is a credit to Prepaid Insurance and a debit to Insurance Expense. The advance payment of rent creates an asset, Prepaid Rent. In the period that the rent covers, there is a credit to Prepaid Rent and a debit to Rent Expense.

Buildings, equipment, furniture and other long-lived assets also become expenses over future periods and are accounted for in essentially the same way as the fuel oil. However, the details for recording long-lived assets are somewhat different and are described later.

Accrued Liabilities

If you incur an expense prior to the period in which the cash is paid, a liability is created at that time. For example, if employees earn $1,000 in January but are not paid until February, the entity has an expense of $1,000 in January and a liability, Accrued Salaries, at the end of January. In February, when employees are paid, there is a $1,000 credit to Cash and $1,000 debit to Accrued Salaries. The debit part of the entry cancels the liability. The entries are as follows:

In January:		
Dr. Salaries Expense	1,000	
Cr. Accrued Salaries		1,000
In February:		
Dr. Accrued Salaries	1,000	
Cr. Cash		1,000

Accrued Revenues

Like expenses, revenues are not necessarily earned in the period in which the related cash is received. The entity can earn revenues prior to, in the same period as, or after the period in which the cash is received. If revenue is earned in the same period, as with a sale of goods for cash, the entry is simply a debit to Cash and a credit to Sales Revenue. The other two possibilities require use of the accrual principle.

Precollected Revenue

Some landlords collect rent from their tenants in advance. If rent received in January applies to the use of property in February, the revenue is earned in February, not January. In January, when the

entity receives cash, the credit offsetting the debit to Cash is to a liability account, Precollected Rent. This account reports the entity's obligation to provide the tenant with the use of the property in February. The entries for rent of $600 received in January and applied to the use of property in February are as follows:

In January:		
Dr. Cash	600	
Cr. Precollected Rent		600
In February:		
Dr. Precollected Rent	600	
Cr. Rent Revenue		600

Accounts Receivable

When a sale is made on credit, the entity earns revenue in the month of the sale, even if it receives the cash later on. When the sale is made, the entity has an asset, Accounts Receivable, which represents the amount that the customer owes. Assume that in January $1,000 of goods are sold to John Doe, a credit customer, and he pays the $1,000 in February. The entries are:

In January:		
Dr. Accounts Receivable—John Doe	1,000	
Cr. Sales Revenues		1,000
In February:		
Dr. Cash	1,000	
Cr. Accounts Receivable—John Doe		1,000

The effect of these entries is that sales revenue is credited in the month of sale, and an asset, Accounts Receivable, is created in that month. Later on, when the customer remits cash, Cash increases, and Accounts Receivable decreases by the amount of the payment.

Bad Debts

Some customers may not pay their bills. In this case, the asset, Accounts Receivable, turns out not to have been an asset at all. When this happens you credit Accounts Receivable and the customer's account with the amount of the bad debt, and debit an expense account, Bad Debt Expense.

Timing of Revenue Recognition

You recognize revenue in the period in which it is earned. For the sale of goods, this period is usually the period in which you deliver the goods to the customer.

For the sale of services, such as the services of a physician, you record revenue in the period in which the services are performed. "Services" is a broad term that includes all products other than tangible goods—rental revenue for the use of rental property, room revenue for the use of a hotel room, interest revenue for the use of money, franchise revenue for the use of a name, royalty revenue for the use of written or recorded material, tuition revenue for the use of educational resources, or dues revenue for the services provided by a club or association. All are accounted for in the same way.

Note that you do *not* record revenue prior to the period in which goods are delivered or the services performed. In accounting, however, no entry is made in the period in which the sales order is booked. You record revenue in the period in which the goods are delivered.

Matching Principle

When a store sells a TV set for $400, it earns $400 revenue. It does not have $400 of *income,* because when it made the sale it also delivered the TV set from its inventory. Assets decreases at that time by the cost of the TV set. This cost becomes an expense, Cost of Sales. If the TV set cost $300, the income from this transaction is only $100 ($400 revenue—$300 expense).

When the same event has both a revenue element and an expense element, both elements must be reported in the same accounting period. The expense must be matched with the revenue. This event requires *two* entries, one for the revenue part and one for the expense part. For example, if your entity sells a TV set for $400 cash and the TV set cost $300, the two entries are:

For the revenue element:		
Dr. Cash	400	
Cr. Sales Revenue		400
For the expense element:		
Dr. Cost of Sales	300	
Cr. Inventory		300

To make the second entry, you must first find the cost of the TV set. If the entity has a way of keeping track of the cost of individual items that it sells, this matching process is easy. If, however, the entity sells a large number of small valued items, the work of keeping track of the cost of each of them is not worthwhile. In this case, other methods of finding the cost of sales are used and are described in a later section.

Relation of Balance Sheet and Income Statement

The amounts recorded in revenue and expense accounts are used in preparing the income statement for the period. Then these accounts are transferred to equity because they are temporary accounts showing increases and decreases in equity. The income of the period is added to the equity section of the balance sheet during month end. An account in the equity sections shows the accumulated amount of such income for all periods to date. A common title for this account is *Retained Earnings.*

Equity increases by the income of the period, that is, the difference between revenues and expenses. The Retained Earnings account is debited for amounts paid to the owners as dividends or some other

type of withdrawal. For example, a dividend of $500 would be recorded as follows:

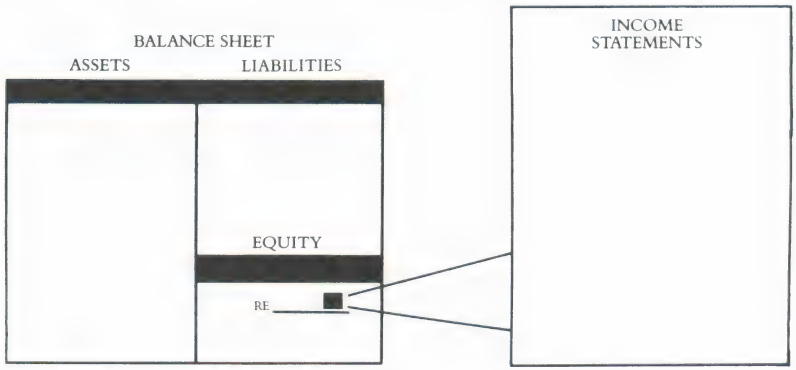
Dr. Retained Earnings	500	
Cr. Cash		500

Since the Retained Earnings account is credited for the amount of income, or earnings, and debited for amounts paid to the owners, the balance is the amount of earnings that have been retained in the entity.

To some people, the word *retained* suggests that Retained Earnings stands for an amount of cash kept in the entity, which is not true. All the entity's cash is reported in its Cash account. Retained Earnings is a claim against cash and also against the other assets.

Income Statement

You report the revenues and the expenses of an accounting period on a financial statement called the *income statement,* also called profit and loss statement or operating statement. Since revenues and expenses are increases and decreases in equity, the income statement explains changes in *one item,* retained earnings, on the balance sheet.



There is no standard format for an income statement. Back to Basics includes a tentative format that you can use as is, or tailor to produce the statement best suited to your own needs. In this format, the various items of revenue are shown first, the total revenue is calculated, and the expenses are subtracted. The difference between revenues and expenses is income. Because it is at the bottom of the statement, the income amount is often referred to as the *bottom line.*

Package of Accounting Reports

Exhibit 1 shows the relationship of the balance sheet and the income statement.

Scott Company's Balance Sheet at the end of January is the same one you used earlier and is the balance sheet for the beginning of February. It is shown in the first column of the exhibit. The balance sheet as of the end of February is in the second column. The income statement for February is given below the balance sheets.

Note that the change in Retained Earnings during February is $600 ($600 – $0). As shown at the bottom of Exhibit 1, this change is the net effect of two items:

1. The income for the period, $1,100, as reported on the income statement.

2. A dividend paid during the period, $500.

Note also that although income in February is $1,100, Cash decreases by $2,700 ($4,000 – $1,300). This decrease emphasizes that there is not necessarily a connection between the income of a period and the change in cash during the period.

In examining the activities of an accounting period, you will find it useful to consider changes in assets and equities in the beginning and ending balance sheets, and the revenues and expenses of the period, as shown on the income statement.

Exhibit 1

A Package of Accounting Reports
Balance Sheets

Assets	As of Feb. 1	As of Feb. 28
Cash	$ 4,000	$ 1,300
Accounts receivable	0	1,600
Inventory	2,000	3,400
Furniture	5,000	5,000
Prepaid expenses	0	1,100
Total assets	11,000	12,400
Liabilities and Equity		
Liabilities		
Accounts payable	1,000	1,500
Accrued salaries	0	300
Total liabilities	1,000	1,800
Equity		
Paid-in capital	10,000	10,000
Retained earnings	0	600
Total equity	10,000	11,100
Total liabilities and equity	$11,000	$12,400

Income Statement for February

Revenues		
Sales revenue	$12,000	
Interest Revenue	200	
Total revenues		$12,200
Expenses		
Cost of sales	$ 8,000	
Salaries	1,800	
Insurance expense	100	
Fuel expense	400	
Other expenses	800	
Total expenses		11,100
Income		$ 1,100

Explanation of Change in Retained Earnings

Retained earnings, February 1	$ 0
Add income for February	1,100
Subtotal	1,100
Subtract withdrawal (dividends)	500
Retained earnings, February 28	600

These techniques are consistent with the general accounting principles. This section is an overview of the accounting process. Details are given in later sections of this handbook.

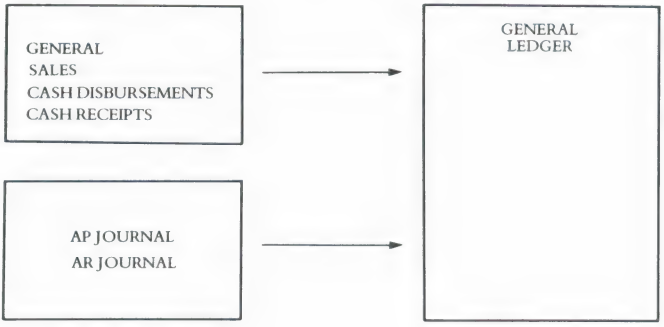
Journals and Ledgers

We have described the general principles that govern an accounting system. In this section, we introduce the techniques for recording events that happen to the entity.

In a manual accounting system, the debits and credits for each transaction are first entered in a book called a *journal.* The journal record

for each transaction is called a *journal entry,* or simply an *entry.* Later on, the journal entries are copied, or posted, to another book called the *ledger.*

The journal lists the transactions in the order in which they occur, while the ledger contains a page for each account. In a manual system, the journal tells the bookkeeper which accounts are to be debited and which credited, and in what amounts. The bookkeeper carries out these instructions by posting journal entries to the ledger. Back to Basics does most of this work for you.



You start by deciding which accounts should be debited or credited for a given transaction and the amounts of the debits and credits.

Each account in the system has an identifying number. In this section, names of accounts are used rather than numbers, to make the procedure easier to follow. In the journal you will enter each account number affected by the transaction, its amount, and whether it is a debit or a credit. You make certain that debits equal credits.

Cash Disbursements Journal

When you write a check, there is a credit to Cash and a debit to one or more accounts. You record these cash payments in the cash disbursements journal. In most cases, you will make the offsetting debit to one of the following three types of accounts:

1. A liability account.

2. An asset account.

3. An expense account.

The entry to a liability account is straightforward. If the check pays off a bank loan, shown as the liability, Notes Payable, the debit is to that account. If the check pays a vendor who has extended credit, shown as Accounts Payable, the debit is to that account. Entries to asset and expense accounts can be more complex. The distinction between assets and expenses is not clear. The following sections discuss both the principle and practical shortcuts in applying it.

Distinction Between Assets and Expenses

The basic distinction between assets and expenses is if by making the cash disbursement, the entity buys something that benefits future periods, the debit part of the entry is to an asset account. This asset account appears on the balance sheet as of the end of the period.

If the item bought is used up in the current period, the debit is to an expense account. Land, buildings, furniture, equipment, and automobiles are assets. So are inventory, prepaid rent, prepaid insurance, and other items that are paid for in advance of the period in which they provide benefits. Payment for the services provided by employees (salaries and wages), for telephone and electricity used in the current period, and for other services used in the period are expenses.

Shortcuts

However, this practice is not always followed exactly. Some items that theoretically should be recorded as assets are debited to expense accounts. If the item were debited originally to an asset account, it must be debited to an expense account in the later period, or periods, in which it is used up. This process causes additional record keeping. If the debit is made to expense immediately, this additional record keeping is avoided.

Consider pencils as an example. In principle, pencils are an asset. If you follow the accrual principle strictly, you debit an asset account when the pencils are purchased, and you debit an expense account in each month these pencils are used. As a practical matter, this amount of record keeping is not worthwhile.

You debit the cost of pencils to an expense account when you buy them. The amount is small. Also, if the amount of supplies purchased tends to be roughly the same from one month to the next, the effect of debiting an expense account immediately is about the same as with the alternative of first debiting an asset account and later transferring the asset to an expense.

Supplies, small tools, and similar items usually are debited to expense accounts when they are purchased. You may decide to debit the payment of property taxes to an expense account, even though the tax payment applies to several months. You can decide to debit a payment for insurance protection to an expense account in the month you pay the bill, even though the insurance protection applies for a full year. The choice is up to you.

Materiality Principle

In making these choices, you are applying the *materiality* principle, which is an accepted accounting principle; an entity can depart from the accrual principle if the effect of doing so is not material. The effect is not material if it does not mislead the user of accounting information. So, if a shortcut will give you approximately the infor-

mation you need about how your entity has performed and what its financial condition is, you should use it and reduce the amount of record keeping.

Exercise caution in treating "chunky" disbursements as expenses. Chunky disbursements are those that occur at infrequent intervals, such as the insurance premium or the property tax mentioned above. If you record these amounts as expenses in the month in which you paid the bill, the income reported in that month will be artificially low, and the income in the other months will be higher than was actually the case.

Asset Acquisition Cost

If you decide to record the debit offsetting the credit to Cash as an asset, the amount of the asset should be the sum of all the costs incurred in making the asset ready for its intended use. The cost of goods purchased for inventory includes freight and handling costs as well as the invoice cost of the goods themselves. The cost of a building includes all the costs of constructing or buying the building, including demolition of an existing building on the site, legal and appraisal fees, permit and inspection fees, and interest on any funds tied up during the construction period—but interest stops being added to the cost when the building is ready for use. The cost of equipment includes the cost of installing the equipment.

However, you may decide not to follow this principle exactly. For example, you can treat the freight, postage, or other costs of handling goods that are purchased for inventory as expenses, rather than including these costs in the inventory account. You do this if the effect is not material.

Assets are recorded at their total cost. For example, if the entity acquires a building for $100,000, but pays only $20,000 cash, and takes out an $80,000 mortgage for the balance, the building is reported on the balance sheet at $100,000, not $20,000.

Employee Costs

When an employee works for the entity, the cost of each hour, or other unit of time, includes not only the salary earned, but also the fringe benefits to which the employee is entitled because he or she worked that hour. The cost also includes the FICA taxes levied on the entity for that hour of work but not the employee's contribution to FICA. (FICA taxes are social security taxes.) However, the accounting required to trace these costs to individual employees is more than many entities think is worthwhile, so they lump all these together as a separate expense item, often called *employee benefits.*

Even though this shortcut is typically taken, you should always remember that the real cost of using an employee is much more than the salary. In the typical entity, these employee taxes and fringe benefits are about 25 percent of salary.

Employees do not receive cash equal to the amount they earn. Part of their salary is withheld as an advance payment on their income taxes, and the employer sends this amount to the Internal Revenue Service. An amount is also deducted for the employees' contribution to social security. Deductions may be made for employee contributions to health plans, union dues, and pensions. The expense to the entity is what employees *earn,* not what they are paid.

When an employee is not paid for work performed during a month, there is an accrued liability at the end of the month. If you pay employees weekly, this liability occurs whenever the last day of the month is not the last day of a week—which typically is 10 or 11 of the 12 months in a year. Calculating the amount of accrued salary is time consuming. If you decide that the work involved in making this calculation is not worthwhile, you can record as an expense the amount earned by employees in the pay periods for which you made cash disbursements during the month.

Accounts Payable

According to the accrual principle, you record assets in the month in which they are acquired even though the payment is not made until a later month. Also, you record expenses in the month in which they are incurred, even though payment is not made until later. In practice, the principle is not followed strictly. As with the distinction between assets and expenses explained in a previous section, the accrual principle may be disregarded if the effect on income is not material.

For example, telephone bills and other utility bills are not received until after the end of the month to which they apply. If you apply the accrual principle strictly, you would debit an expense account and credit Accrued Liabilities in the month in which the telephone calls were made or the electricity consumed. Most entities do not do this. Instead, they record the expense in the month in which the bill is paid. Since the amount tends to be approximately the same from one month to the next, this departure from the "pure" accrual principle usually has no material effect on the accounts.

You can apply the same shortcut to other relatively unimportant items. We already have mentioned the practice of debiting supplies and similar assets to an expense account in the month of purchase. Expenses for repairs or maintenance done by outside contractors may be recorded in the month when the invoice is received, rather than in the month in which the work was done.

Accounts Payable System

If your entity buys on credit from a number of vendors, you will want to keep close track of the amount owed and the due dates of the bills. If you pay the bills too early, you lose the interest that you could be earning on the cash. If you pay too late, you could lose a cash discount, or injure your credit reputation. Also, you need to know when bills are due in order to have the cash needed to pay them.

Back to Basics has an Accounts Payable module that provides this information. This module provides the summary information needed for the entry that credits Accounts Payable and debits the various asset and expense accounts that the vendor invoices represent.

Accounts Payable File

If you don't have a large number of outstanding invoices, you may decide on a shortcut. Instead of recording Accounts Payable when you receive invoices, you file the invoices in folders arranged according to the date when payment is due. If you make payments in the same month, you remove the invoice from the folder and make an entry in the Cash Disbursements Journal when you write the check. If the invoices are not paid until a following month, you find the amount owed at the end of the current month by totaling the unpaid invoices. You credit this amount to Accounts Payable and debit it to the proper asset and expense accounts. This process is called an adjusting entry and is described in a later section.

If you decide not to record accounts payable in the accounts at all, you hold the invoices until you pay them. If the invoice amounts are small, this procedure can be satisfactory. However, if the amounts are significant, omitting accounts payable does not give an accurate record of the financial status of the entity.

Cash Receipts

You record cash receipts from sales to a customer in the Cash Sales Journal and other cash receipts in the Cash Receipts Journal. If you have a cash register, it probably provides the data you need to make the entry in the Cash Sales Journal. You make this entry whenever you remove cash from the cash register and deposit it in the bank. Basically, the entry is a debit to Cash and a credit to Sales Revenue, but there are also other aspects to it in certain circumstances.

You use the Cash Receipts Journal for other cash receipts. Debit Cash and credit other accounts according to the source of the receipt. If you receive cash from customers in payment of their bills, you debit Cash and credit Accounts Receivable.

Sales Taxes

Many sales are subject to a sales tax. In addition to the price of the item itself, the customer pays a tax that is a specified percentage of the price. In principle, the sales tax is *not* revenue as the entity is just acting as a collection agent for the government. The collection of the tax creates a liability to the government, Sales Taxes Payable, which is equal to the debit to Cash or Accounts Receivable. As equity is unaffected, there is no revenue.

Nevertheless, many entities include the sales tax as part of sales revenue, because their managers decide the work of keeping track of the sales tax on each transaction separately is not worthwhile. An entity that takes this shortcut has to remember to record the sales tax liability to the government.

Accounts Receivable Module

If your entity has a number of charge customers, or if it is an association that collects dues or other charges from members, you will want to keep track of the amounts owed you. Back to Basics Accounts Receivable module does this and also maintains a record of how much each customer has purchased in the year to date, credit terms and credit limit for the customer, the amount of current and past due bills, and other information about the customer.

You can use the Accounts Receivable module to prepare customer statements, including dunning notices to customers whose accounts are past due. It can calculate and add a finance charge, which is a penalty levied on customers who do not pay their bills on time. The module prints several summary reports giving information about customers.

Information in this module is the basis for the entries relating to sales on credit. When sales are made, debit Accounts Receivable and credit Sales Revenue—and Sales Tax Liability if this account is kept. When you receive cash from customers, debit Cash, and credit Accounts Receivable. If the customer takes a cash discount, debit Sales Discount; if the customer pays a finance charge, credit Finance Charge

Revenue. Other possible variations are described in a later section of this handbook.

Adjusting and Closing Entries

When cash is received or paid, or when an invoice is received from a vendor, the need to make an entry in the accounts is obvious. Many of the entries required by the accrual principle are not obvious. You must take special steps to ensure that the proper entries are made.

Adjusting Entries

In the fuel oil example given in the Prepaid Expense section, the $900 payment to the fuel oil dealer in January requires a credit to Cash and a debit to Fuel Oil Inventory. During February, March, and April, no outside record calls your attention to the need for the entries debiting Fuel Oil Expense and crediting Fuel Oil Inventory.

Many entries required to apply the accrual principle are easy to overlook if you do not set up procedures for them. Back to Basics recognizes this possibility, and provides for a series of entries, made at the end of the month, to enter the effect of accruals. These entries are called *adjusting entries.* They adjust the accounts so the amounts reported as expenses and revenues for the period reflect the actual decreases and increases in equity during the period and so the balance sheet amounts reflect the current financial condition (subject to the shortcuts discussed earlier).

Some of these entries are "standard"; that is, if the entity purchases a one-year insurance policy for $1,200, there is an expense of $100 for the insurance protection provided in each of the next 12 months. Once you enter this fact, the program makes this monthly entry automatically. Automatic journal entries ensure that the entry is not overlooked, which can happen in a manual system.

Cost of Sales

If your business is involved in the sale of merchandise, it is important that the cost of merchandise sold be "matched" with the revenue earned from the sale of this merchandise. Unless you report both revenue and cost amounts for a particular item of merchandise in the same month, income can be seriously distorted. If the revenue is reported in January, but the related cost of sales is reported in February, January income will be too high and February income will be too low. Also, the *gross margin,* which is the difference between sales revenue and cost of sales, will be incorrect. Your gross margin is an important monitor.

If your business is one in which you know the cost of individual items of merchandise, as with "big ticket" items such as automobiles, refrigerators, and television sets, the matching process is easy. You record the cost of sales at the same time that you record the sales revenue.

If it is not practical to keep track of the cost of each item in your inventory, measuring cost of sales is more difficult. One possibility is to take an inventory at the end of the month. This inventory amount tells you the total dollar cost of goods on hand at that time. Then you can calculate the cost of sales by the process of *deduction,* because you know the inventory at the beginning of the month and the purchases during the month. The sum of these amounts is the goods you had available for sale. You operate on the assumption that if these goods were not in inventory at the end of the month, they were sold. You, therefore, find cost of sales by subtracting the ending inventory from the goods available for sale. You can also make allowance for pilferage, spoilage, or other causes of *inventory shrinkage* if it is significant. However, taking a physical inventory can be time consuming. Many entities take inventory at the end of the year; few do it every month.

Another method of finding the cost of sales is called the *retail method.* You know the *markup,* that is, the percentage that you add to the cost of merchandise in order to arrive at the retail selling price. Also, you may have at least an approximate idea of the

markdowns from the normal retail price that you make during sales periods. You can use this information to arrive at an approximate cost of sales. If your cost of sales is normally 60% of your retail price, then your approximate dollar cost of sales is 60% of your sales revenue, adjusted for markdowns in months in which sales occur.

Several methods are available to make the adjusting entry for cost of sales. Often, the easiest is to debit Cost of Sales and credit Inventory for the estimated cost of the sales made during the month.

In a business that sells merchandise, the cost of sales is important. Service entities don't have this problem.

Depreciation

Long-lived assets are often called *fixed assets.* Except for land, which you usually use indefinitely, long-lived assets have a limited useful life. The number of accounting periods over which an asset is expected to be useful is called its *service life.*

In accounting, you debit a portion of the cost of a long-lived asset as an expense in each period of its service life. This portion is called the *depreciation expense* for the period. The principle is exactly that for prepaid expenses, such as the insurance policy described earlier. A one-year insurance policy provides protection for each of the next 12 months, and 1/12 of the prepaid amount becomes an expense in each of those months. If a long-lived asset has a service life of 120 months, that is, 10 years, a portion of its cost becomes an expense in each of those months.

Back to Basics calculates depreciation expense on the *straight-line basis,* which is the method used in most entities. In this method, an equal fraction of the asset's cost is debited to Depreciation Expense in each month of the asset's service life. The *service life* of the asset is usually less than its physical life. Many assets are expected to become obsolete and are no longer of service to the entity, long before they physically wear out. If an asset cost $12,000 and is expected to have a service life of 120 months, 1/120 of the $12,000,

or $100, is debited as depreciation expense in each of the 120 months. Plotted on a graph, the depreciation expense each month is a straight line.

If you expect the asset to have a resale value, or *residual value* at the end of its service life, you can subtract this amount from the original cost in calculating the depreciation.

Accumulated Depreciation

When prepaid insurance is debited to an expense account, the offsetting credit is to the asset account, as described in the preceding section. The procedure for long-lived assets is different. Instead of crediting the asset account directly, the credit is to a special account called Accumulated Depreciation.

Such an account is called a *contra account* because it records a decrease that basically belongs to another account. Accumulated Depreciation represents decreases that you could make directly to the asset account. The debit and credit rules for a contra account are those that apply if the entry had been made to the account for which it is the "contra." Since *decreases* in asset accounts are credits, *increases* in the contra accounts are credits.

With this procedure, the balance sheet reports both the original cost of the asset and the accumulated depreciation to date. The difference between Accumulated Depreciation and the original cost of a long-lived asset is called *net book value.*

Note that the depreciation expense for an asset is the same each month, but that Accumulated Depreciation increases by the amount that is added to it each month. So for the previously illustrated asset, depreciation expense for the 90th month—that is, ¾ of the way through the asset's life of 120 months—would be $100, just as in every other month, but Accumulated Depreciation would be reported as $9,000 (90 months x $100).

When Accumulated Depreciation builds up so that its total equals the original cost of the asset, you should not record any more depreciation expense. At that time, depreciation stops, even if you are still using the asset.

Back to Basics can make the straight line depreciation entries automatically each month as part of the adjusting entries, provided you have set up automatic journal entries. For this asset, the entry each month would be:

Dr. Depreciation Expense	100	
Cr. Accumulated Depreciation		100

Gains and Losses

The service life and residual value of a long-lived asset are estimates because no one knows how long the asset will provide service. Thus, when you sell or dispose of an asset, the amount realized, if any, is likely to differ from its net book value. If the amount realized is more than the book value, there is a *gain,* and if less, there is a *loss.* The entry removes both the asset's cost and its accumulated depreciation. For example, if a machine that was sold for $4,000 cash at the end of the 90th month, and its cost was $12,000, its accumulated depreciation is $9,000, so its net book value was $3,000. The following entry records the receipt of cash, the gain, and the removal of the asset and its accumulated depreciation from the books:

Dr. Cash	4,000	
Accumulated Depreciation	9,000	
Cr. Machine		12,000
Gain on Sale of Asset		1,000

The gain or loss on the sale of a long-lived asset is treated just like revenue (if a gain) or expenses (if a loss) on the income statement of the period in which the asset is sold or discarded.

Note that the procedure for recording depreciation expense does not involve cash. Cash was paid out, or a liability was created, when the asset was acquired. Thereafter, the accounting entries for depreciation

charge only a fraction of the acquisition cost to each accounting period. Some people believe that Accumulated Depreciation represents an amount of cash that is available to buy new assets. The amount of cash that an entity has is reported as the Cash item on its balance sheet, nowhere else.

Cost Allocations

Some costs that the entity incurs during a period may be debited to more than one expense or asset account. For example, if you separate the entity into "departments," some of the general and administrative costs may be attributable to several departments. In principle, some fraction of the costs that are incurred for various purposes should be charged to each of these purposes. The process for doing this is called *cost allocation*.

The basis of cost allocation is that each purpose should bear its *fair share* of the total cost. However, the allocation of costs may not be worth the bookkeeping effort involved in making the allocations. Charge each department only with the expenses that can be *directly traced* to that department. Record all other expenses as general expenses, and do not try to allocate them to departments. These other expenses are called *overhead*.

To allocate costs, consult a book on cost accounting.

Closing Entries

Revenue accounts represent additions to equity during the month, and expense accounts represent decreases to equity. The transactions recorded in these accounts could have been made directly to equity. They are collected in separate accounts because information about individual revenue and expense items is of great interest to management. These accounts are temporary subdivisions of equity.

At the end of the month, all revenue and expense accounts are *closed* to equity, and they start the next period with a balance of zero. For example, assume that sales revenue for the month was $12,000. The

Sales Revenue account has a credit balance. You close it by making an entry to the opposite side of the account.

Dr. Sales revenue	12,000	
Cr. Profit/Loss		12,000

The debit to Sales Revenue of $12,000 equals the credit balance of $12,000, so the balance in the account becomes zero.

Assuming that the Salaries Expense account was $1,800, you close it with the following entry:

Dr. Profit/Loss	1,800	
Cr. Salary expense		1,800

Profit/Loss is a temporary account. During the year, it accumulates the monthly profits or losses, and shows the total profit—or loss—for the year to date. At the end of the year, you transfer the profit for the year to Retained Earnings. If the profit for the year is $13,000, the entry is as follows:

Dr. Profit/Loss	13,000	
Cr. Retained earnings		13,000

Using Accounting Information

Accounting is not an end in itself. You collect accounting information to use it for some purpose. You don't spend more effort on collecting the information than the results warrant. This is the *benefit/cost principle* which is based on the principle that the benefits of using accounting information should exceed the costs of collecting it. This section briefly describes several of these benefits.

Required Reports

Most entities report to outside parties. All entities with employees must report information about the earnings of and amounts withheld from these employees. Profit-oriented entities must file income tax returns. If they collect sales taxes, entities must report and remit the

amounts collected. Many nonprofit entities must report to the government and/or to organizations that provide them with resources. A corporation must report to its shareholders. If an entity wants to borrow money, it usually must furnish financial information to the prospective lender.

Information of this type *must* be collected, and it must be collected in the way that recipients specify. Much of this information is also useful in managing the entity. The point is that any *additional* information is optional. You collect it only if you decide that the benefits of doing so are worth the cost of keeping the accounting records.

Operating Information

Since most entities want to know daily how much cash they have to work with, they enter cash receipts and cash disbursements into the computer every day.

If customers or others owe you money, you want up-to-date information on the status of their accounts. The Accounts Receivable module provides this information. Similarly, the Accounts Payable module provides information on the amounts you owe others. You will use this operating information in addition to the information reported on the monthly balance sheet and income statement.

Income Tax Accounting

Profit-oriented entities must calculate their *taxable income* and pay an income tax based on that income. This overview describes the measurement of income, called *financial accounting income,* according to generally accepted accounting principles. With one minor exception, which is calculating cost of sales, entities do not have to measure their financial accounting income according to the rules the Internal Revenue Service published for calculating taxable income. It is an accepted legal principle that entities are entitled to calculate their taxable income according to whatever legitimate method results in the lowest income tax. The objective of measuring

financial accounting income is quite different—you want to calculate income in the way that shows what actually has happened to the entity.

In your financial accounting, you are not bound by the income tax regulations. Nevertheless, you probably will handle the majority of transactions in the same way for both tax accounting and financial accounting and use information from your accounting system as a basis for most of the items on your income tax return. To do otherwise requires two separate sets of books, and this extra bookkeeping is not necessary for most items.

In at least two areas, it may be worthwhile to use different methods for the two types of accounting. They are cash basis accounting and depreciation.

Cash Basis Accounting

The tax regulations let businesses figure their taxable income on a cash basis, rather than on the accrual basis. Cash basis accounting can result in *postponing* the payment of income tax, although it ordinarily doesn't reduce the total amount of income tax over a period of years. For example, if you report sales revenue only when you receive cash from credit customers, rather than when you make the sale, taxable income tends to be postponed to a later year. Eventually, however, you do pay a tax on the same amount of income.

Calculating taxable income on a cash basis usually is easy to do by using the records that you are keeping for financial accounting purposes. Most businesses make this calculation only at the end of the year, not monthly.

Depreciation

In financial accounting, the depreciation mechanism spreads the cost of a long-lived asset over its entire service life. Tax accounting takes a different approach, the *Accelerated Cost Recovery System (ACRS).* ACRS recovers the cost of the asset *faster* than the financial accounting method. Since the result is a higher depreciation

deduction in the early years, and a lower taxable income in those years, you probably will use this method for income tax purposes. In some unusual situations, accounting depreciation does result in lower taxable income.

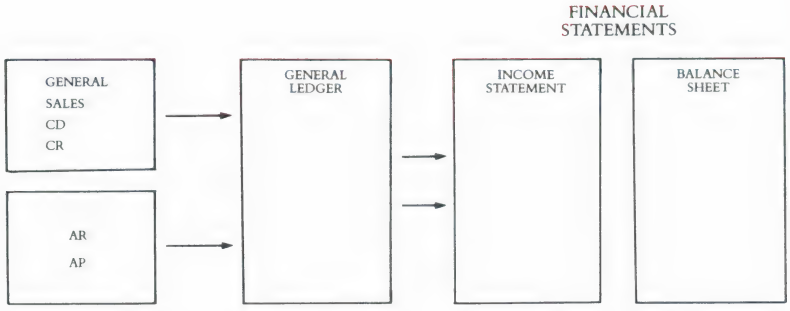
Do not use ACRS in your accounting records. If you do, you may understate your financial accounting income, which would result in misleading figures on profitability of your business.

In applying the techniques mentioned above, as well as other aspects of income taxation, most businesses call on an income tax expert for help. The rules of income tax accounting are much more complicated than those of financial accounting. If you fail to take full advantage of these rules, you pay more income taxes than necessary. Or, if you do not follow the rules, you could pay a sizable penalty.

Nonprofit organizations do not pay income taxes unless they also engage in profit-making activities. However, many of them must file financial statements with the state or federal government or with agencies such as United Way. In general, these financial statements are prepared in accordance with the financial accounting rules described in this overview, but the details vary according to the requirements of the individual agencies.

Analysis of Financial Statements

At the end of each month, your computer prints out a balance sheet and an income statement. For income tax purposes, for official financial statements, and for most other reports, you only need annual statements. Monthly information is not worth its cost unless you use it.



Balance Sheet Analysis

If you are in a "cash bind" or other financial crisis, you need to pay close attention to your cash position. Look primarily at the *monetary* assets and liabilities. Monetary assets are cash and those assets that you can turn into a specified amount of money. Monetary liabilities are liabilities requiring the payment of a specified amount of money—most liabilities are monetary. You can estimate how much cash is coming in from payments on accounts receivable and cash sales and how much cash you must disburse for payroll, current invoices, and accounts payable.

If you have an ample cash flow, you still need to examine the situation. For example, you may have more in your checking account than you need. If so, you may consider moving some of it to a money market fund or other place where it will earn a good return. Some investment institutions automatically transfer your excess cash from a checking account to an investment earning a higher return.

In examining the cash position, remember that the bank's records probably show that you have more cash than your Cash account shows. You make a credit to Cash on the day you write and mail the check, but the bank only reduces your cash balance when the check deposited by the recipient clears through the banking system. This process takes a few days, sometimes longer if vendors or employees are slow in depositing your checks.

As a result, forecasting your future cash position may indicate that you should think about obtaining more cash—by borrowing, or by reducing your expenses—or that you likely have unneeded cash, which you should invest in some instrument that earns a return.

Income Statement Analysis

The income statement shows the entity's financial performance for the month. In evaluating the statement, consider whether performance was as good as it should have been, and if not, why.

To determine how well your entity did for the month, compare actual performance with some indication of how the entity should have performed. The best basis for comparison usually is a budget. A carefully thought-out budget indicates your judgment of what the entity's income should be, based on all the information available at the time you prepared it. Examine each revenue and expense item. Investigate any significant difference, or *variance,* between budgeted and actual amounts.

If you collect revenue and direct expenses by "departments"—which can include product lines, physically separate subunits, or any other useful way of subdividing revenues—you can pinpoint the source of the variances even more closely.

In addition to a comparison with budgeted amounts, you can compare revenue and expense amounts for the current month with those for the preceding month or for the same month a year ago. Also, a comparison of results for the year to date with the budget, or with results in the preceding year to date can be useful because it tends to average out temporary influences distorting the results for a given month.

Budgeting and Forecasting

You probably will make the analyses of the income statement each month, or at least every few months. This financial information is useful also as a basis for preparing a budget for the coming year; the income statement is the starting point. You adjust the numbers on the

historical income statement according to your best estimate of how revenues and expenses will differ in the year ahead.

If your first cut at such an estimate does not indicate that the entity is going to earn a satisfactory income, look at what needs to be done to correct the situation:

- Cut expenses?
- Increase advertising and other marketing expenses in order to generate more revenue?
- Discontinue any activities not performing satisfactorily?
- Or find new ways to earn revenue?

The point is that preparing a budget starts your thinking about what, if anything, needs to be done in order to produce a satisfactory income next year, and to take the necessary action ahead of time.

In many entities, managers expect that the historical income statement will "contain no surprises." The expected results are set forth in the budget and modified according to the manager's judgment on effect of changes in conditions since preparing the budget. With a well-prepared budget and a good feel for what is currently going on, the financial statements essentially confirm what the manager already knows.

In addition to the budget, you probably will forecast the entity's need for cash. The basic approach is the same as that already described, but in the annual exercise, you should consider alternatives with longer-run consequences. If the business is seasonal, for example, reviewing the monthly balance sheets may indicate a plan for borrowing in months of peak cash needs and for investing excess cash in other months.

Accounting Measures Costs, Not Values

The next distinction to make is the difference between cost and market values. When an asset is acquired, the price paid for it is probably its value at that time. Thereafter, however, accounting traces what happens to the cost of the asset—for long-lived assets, how much of the cost is debited as an expense each period; for inventory, what was the *cost* of the goods sold in the period. If land was acquired ten years ago at a cost of $10,000, it appears on the most recent balance sheet at $10,000, even though its market value may have doubled during the 10 years.

There are at least three reasons to emphasize costs, rather than values.

- The current market value of most assets is difficult to estimate, and accounting reports based on such estimates would be unreliable.
- Except for inventory held for sale, you are going to use most nonmonetary assets in the entity's operation.
- Accounting traces the amount of funds invested in various assets, and these funds represent the cost of the asset at the time you made the investment.

The balance sheet does not report the *value* of assets, except for cash, accounts receivable, and similar monetary assets. The balance sheet does report the *cost* of assets. For long-lived assets, the balance sheet reports the portion of the cost that has not been debited as depreciation expense.

The total of the assets side of the balance sheet is *not* the value of the entity. The value of the entity is what someone is willing to pay for it, which usually bears little relation to the amount reported as assets.

Similarly, the amount reported as equity on the right-hand side is *not* the value of the equity. Although this amount is sometimes referred

to as *net worth,* it does not measure what the owners' claim on assets is worth. Failure to appreciate this point is one of the most common causes of misunderstanding about the meaning of accounting numbers.

Concluding Comment

This *overview* of accounting describes the main ideas, but by no means discusses all the problems that arise in accounting for even a small entity. If you belong to an industry association, the association may have publications that explain the accounting techniques appropriate for your industry.

For further study of the general subject, we recommend a programmed text, Robert N. Anthony, *Essential of Accounting* (Reading, MA, Addison-Wesley Publishing Company, 3d edition, 1983); or its computer version, *Teach Yourself Essentials of Accounting,* also published by Addison-Wesley. After that, a more thorough discussion will be found in the text, *Accounting Principles,* Robert N. Anthony and James S. Reece, (Homewood, IL, Richard D. Irwin, Inc., 5th edition, 1983).

NAME SCOTT TV & STEREO
ADDRESS
ITEMS
FOLIO
DEBITS
Deposits - Tucker Realty
Rent Expense
Cash in Bank
Deposits - Electric Bill
Cash in Bank
Deposits - Southern Bell
Telephone Expense - Instrument
Cash in Bank
Cash in Bank - First Federal
Accounts Receivable
Sales - TV - Stereo
Sales - Taxes Payable
COS - TV - Stereo
Inv - TV - Stereo
Cash in Bank
Sales - TV - Stereo
Sales - Misc. Hdwe.
Sales - Taxes Payable
TV - Stereo
TV - Stereo
1000 00
800 00
150 00
75 00
75 00
200 00
143 19
329 95
13 24
197 50
544
294 50
20 96
294 50
1800 00
150 00
150
250
6CG3/6CE3/6CD3
THE FIRST NATION
OF ATLAN
BALANCE
ACCT.
1000
2100
6520
1000
6550
2000

How to Begin

2

Planning the Installation

This section tells you how to get Back to Basics General Ledger ready to use. You'll learn about the equipment and supplies needed, how to use the mouse, and how to install and start up Back to Basics. You'll have your accounting system up and running in a short time.

Equipment

To use Back to Basics on the Macintosh™, you'll need the following equipment:

- Two disk drives, unless you're running a 512K machine.
- An 80-column printer.

Back to Basics can be run on a hard disk.

Disk Capacities

The approximate amounts of information that can be stored on the data disks for General Ledger are as follows:

- Maximum number of accounts in Chart of Accounts: 254
- Maximum number of checks: 1,500
- Approximate number of entries per month to two accounts:
  - with no Cash Sales entries per month: 4,500
  - with 30 Cash Sales entries per month: 4,410

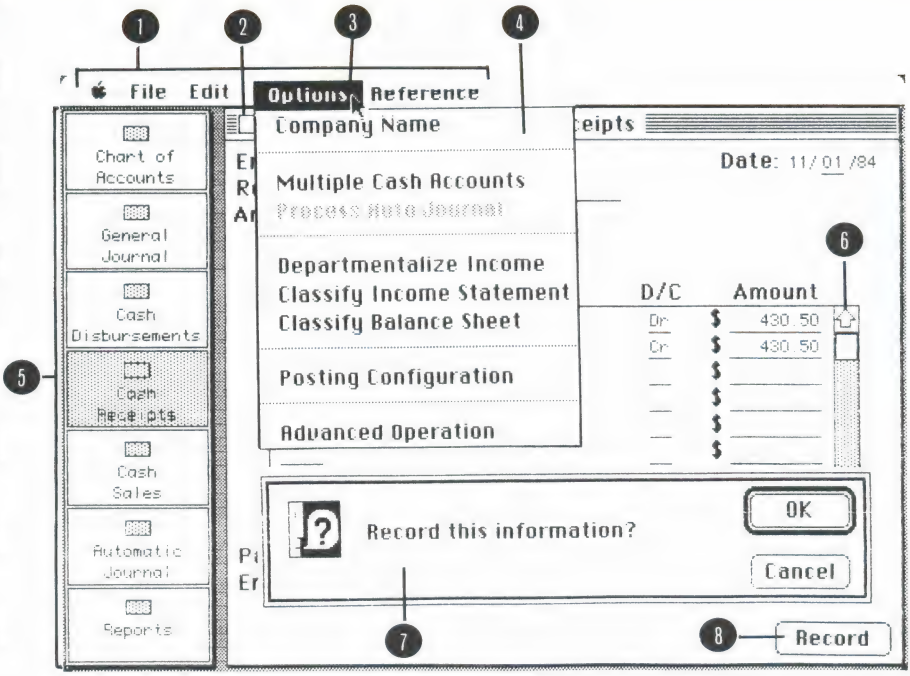
Supplies

You need certain supplies and forms to run Back to Basics General Ledger.

- Disks. You'll need a minimum of two disks per month to run the program. Additional disks are needed for copies of the data disks.
- Paper. Depending on the size of your business, you'll need 200 sheets or more of paper per month. We recommend that you start with a case of 8½" by 11" continuous-form paper (about 2,500 sheets). Reorder as needed.
- Preprinted checks. If you use the Check Print program, you'll need preprinted check forms. The quantity used will depend on the number of checks printed each month.

Back to Basics/Macintosh Screens

You will notice that the Back to Basics screens on the Macintosh look very different from screens you might have seen on other accounting systems. The screens have been designed to make it as easy as possible for you to operate Back to Basics. The following sample screen shows the parts of the screen and is followed by a brief explanation of those parts.



1 **Menu bar**—The horizontal bar across the top of the screen contains your menu titles.

2 **Close box**—The small box on the left side of the title bar of a screen lets you close a screen. Position the pointer on the box and click to exit the screen.

3 **Pointer**—A small shape on the screen that tracks the movement of the mouse. The shape may be in the form of an arrow or an I-beam.

4 **Pull-down menu**—This is a command menu that is accessed by highlighting the menu title at the top of the screen and dragging to the option needed.

5 **File Drawer**—Icons represent each of the major files in the Back to Basics program.

6 **Scroll bar**—A long bar appears on the right side of a screen. Dragging or clicking inside the bar causes the view of the screen to move up or down.

7 **Dialog box**—A dialog box asks for additional action on your part.

8 **Button**—Buttons appear on screens and in dialog boxes and are clicked to confirm, cancel, or designate an action.

You will use the parts of the Back to Basics screen in a unique way with the Macintosh mouse. The next section tells you more about using the mouse with Back to Basics.

How to Use the Mouse

The mouse allows you to move the pointer anywhere on the screen. Pressing, clicking, or dragging the button then activates functions of the program. The following explanations tell you how to do each action.

Click—Position the pointer on the item you want to activate or select. Press and release the mouse button quickly. You will click to select a file or click buttons to perform specific tasks.

Press—Position the pointer on the item you want to select or activate. Press and hold the mouse button without moving the mouse. Pressing the mouse on the scroll arrow results in continued scrolling of the Chart of Accounts.

Drag—Position the pointer on an item. Press and hold the mouse button, move the mouse, then release the mouse button. You will click to select the Option menu, then drag the mouse to the option that you need.

Double-Click—Position the pointer on an item. Press and release the mouse button twice in quick succession. You will double-click to open a file drawer.

Recording Information

Some mouse functions apply throughout Back to Basics. Each time you enter information in a field, you can either press Return or click the mouse to accept the information. Once you enter the information on the screen, there are two types of buttons on the screen to tell the system what to do. One button has a bold outline; you can press Return to activate it. The other button doesn't have a bold outline; you must position the pointer on the button and click to activate.

File Drawers

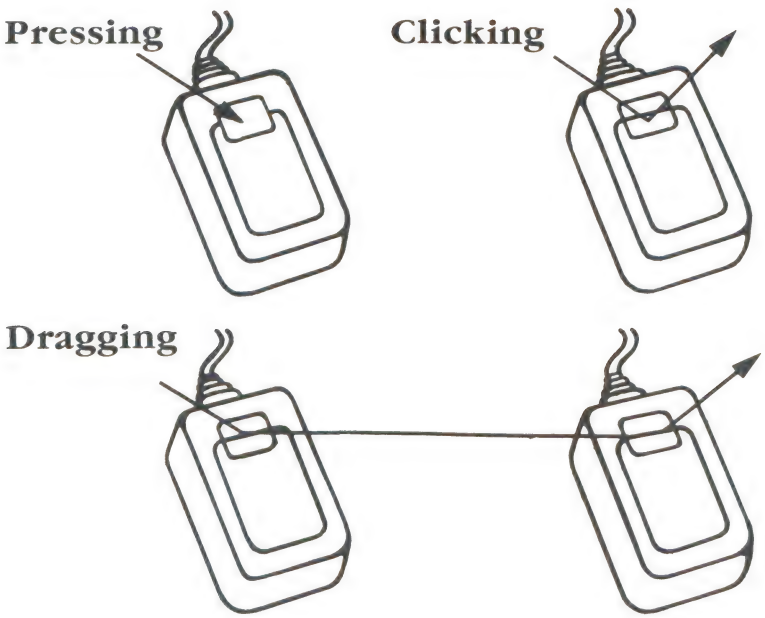
To open a file drawer, you can:

- Double-click on the file drawer.
- Select the file drawer and choose a function from the Edit menu.
- Select the file drawer and choose Open from the File menu.

To close a file drawer, you can:

- Open another file drawer.
- Click on the Close box.
- Choose Close from the File menu.

Often a screen has more information on it than can be viewed at one time. Use the scroll bar to change the view of the window so you can view more of the information. To do this, drag the scroll box to the top or bottom of the scroll bar. For example, on the Journal Entry screen, if the scroll box is at the top of the screen, you are on page 1; if the box is in the middle, you are on page 2; and if the box is at the bottom of the screen, you are on page 3.



For more information on using the mouse, refer to the Macintosh operations manual.

Gathering Information

Before you start to enter information on your Data Disk, you need to gather some company information and make some decisions. Here is the information you'll need:

- The name of the business.
- Whether to use the Chart of Accounts shown in Appendix A or your own. If you install your own Chart of Accounts, follow the instructions listed under "Chart of Accounts File" in this section.

- How to handle prepaid expenses and payroll. Will you enter expenses that will be used up over a period of time as prepaid expenses or enter the expenses directly to the expense account?

- How to classify the balance sheet accounts. For example, do you want different subdivisions with subtotals in the Asset, Liability, and Equity sections of the balance sheet?

- Do you want to departmentalize your revenue and expense accounts? This will depend on the size and type of your business and the amount of details you need. If you departmentalize, you will divide the revenues and expenses into departments. For example, Scott's TV and Stereo could have the following departments: TV and Stereo, Records and Tapes, Miscellaneous Hardware, and Service and Repairs.

- How to classify the income statement accounts. For example, do you want subdivisions with subtotals for revenue and expense accounts?

- Do you want a Cost of Sales section on the income statement? If you resale merchandise, you will need a Cost of Sales section.

- Do you want to enter current balances or not? If you enter balances, enter the current balances from your trial balance and verify the accuracy of each account balance.

- The beginning date for the first accounting period.

If you are not sure of your choices, read this entire section of the manual before you install Back to Basics.

Command Keys

The following keys in Back to Basics have special functions.

RETURN: Advances the cursor from one field to another or to the next line.

COMMAND KEY: Causes a command to take place when used with another key.

ENTER: Confirms an entry or command.

Entering Information

Your Macintosh can accept information only as letters, numbers, or one of the special characters on the keyboard. You can only enter data a certain way on some Back to Basics screens, as in the following explanations:

Entering Amounts

To enter a dollar amount, type the numbers and the decimal point if needed. Do not enter dollar signs, commas, or the characters + and − For example, to enter $1,000.15, type 1000.15.

Typing Upper and Lower Case

To type all upper-case characters, press Caps Lock. Caps Lock doesn't affect number and symbol keys. To type upper- and lower-case characters, use the shift key as needed.

Changing Entered Data

To change data on the screen, place the pointer on the field you want to change, then click and type the correct information. The Cut, Copy, and Paste features work similarly to those functions in MacWrite™. For more information on these features, refer to the MacWrite manual.

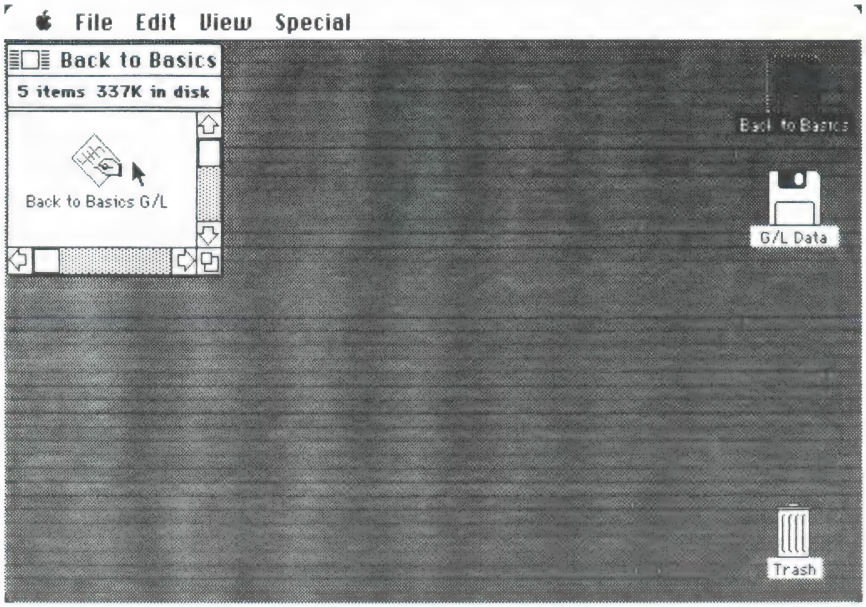
Deciding Not to Record the Data

The Cancel button gives you a second chance to edit the screen. If you don't want to record the screen, you have three choices: click another file drawer, click the Close box in the upper-left corner to exit to another screen, or select Close from the Edit menu.

Loading the Program With a Data Disk

After you have created your G/L Data Disk, you will follow these instructions for loading the program. To create your Data Disk, follow the instructions for loading the program with a blank data disk.

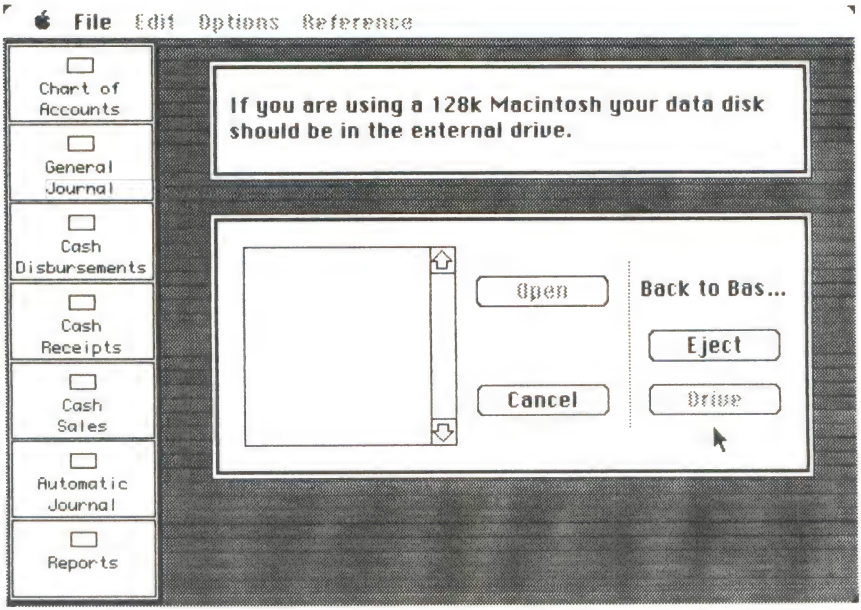
Insert the Back to Basics program disk in the internal drive, and the data disk in the external drive. The Desktop screen displays.



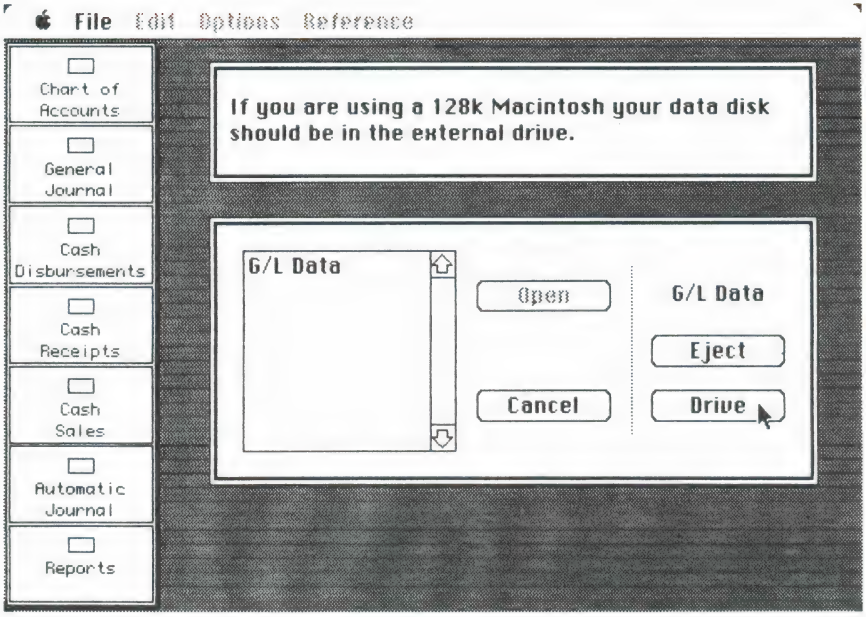
1. From the Back to Basics Disk window, double-click the Back to Basics icon.

2. After the program loads, choose Open from the File menu.

Your screen should look like this.



3. Position the pointer on the Drive button and click. Notice the screen changes from Back to Basics disk to Data Disk. Your screen should look like this.



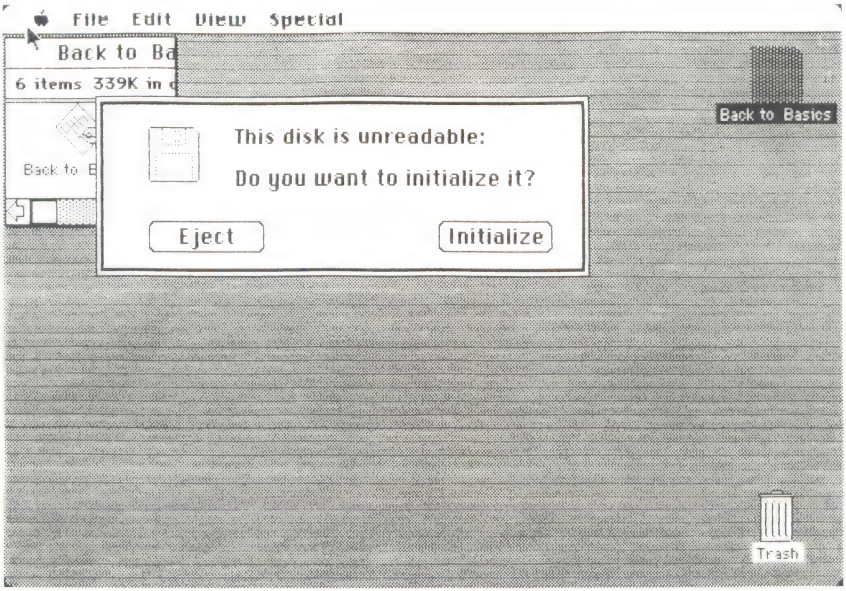
4. Highlight the name of your data file, then click Open or double-click on the filename. The Back to Basics Ledger Module screen with your Company's ID and the date display.

5. Enter a new date and press Return, or press Return to accept the date displayed. All File Drawers are now available. You're ready to start entering information.

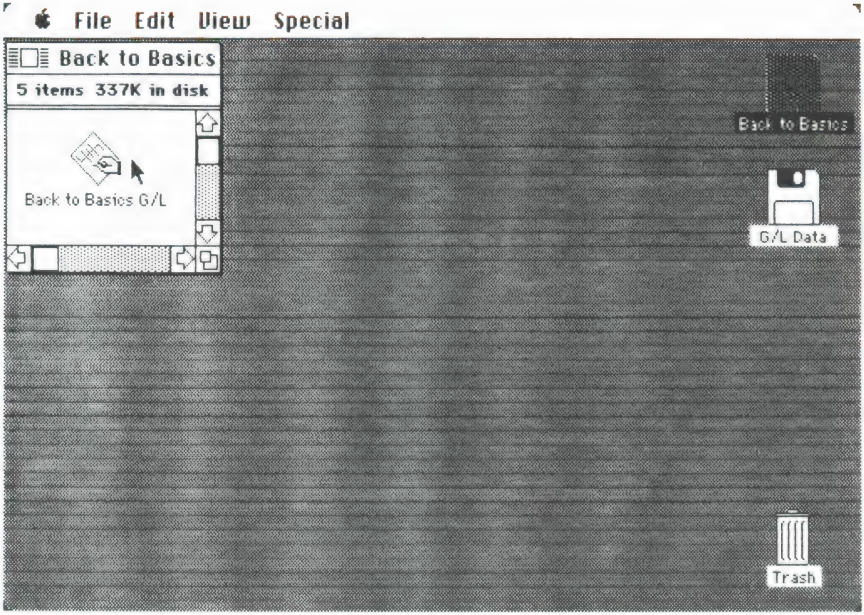
Loading the Program With a Blank Data Disk

To begin running Back to Basics, you'll need the Program Disk labeled Back to Basics General Ledger. You'll also need two blank disks — one blank disk on which you'll put your General Ledger data, and another for creating a backup copy of your Data Disk at the end of your processing session.

Place the Back to Basics Program Disk in the internal drive and a blank disk in the external drive. Slide the disk into the drive, shutter end first and label side up. You may be asked to initialize and name the blank disk.



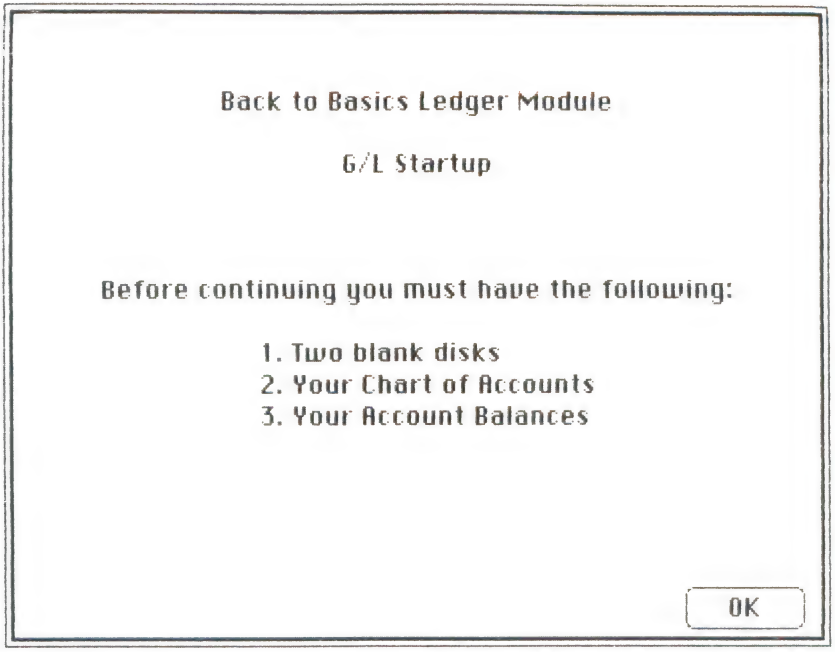
Momentarily, the Desktop screen displays. If the Back to Basics disk window is not shown on your Desktop, double-click on the Back to Basics disk icon.



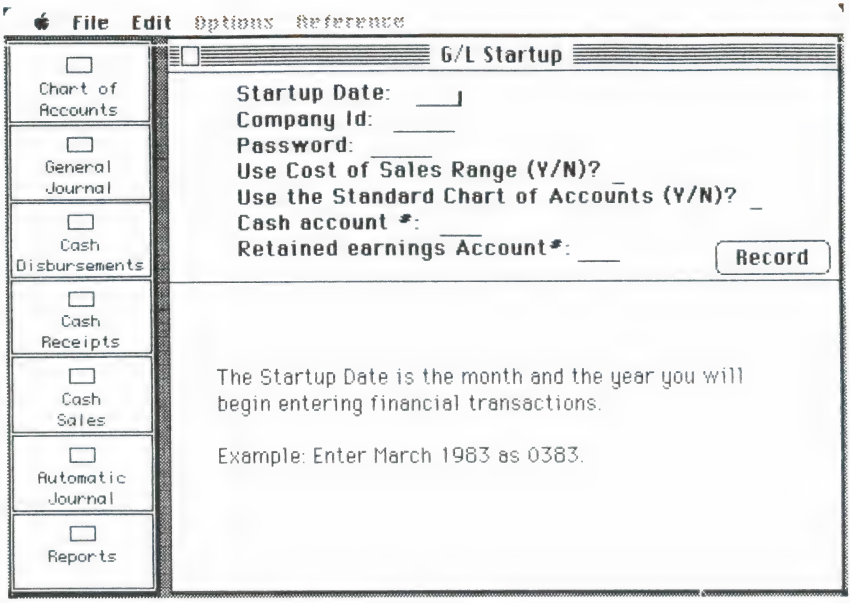
Use the following procedure to load your program.

1. From the Back to Basics disk window, double-click the Back to Basics icon.

2. From the File menu, select New. The following screen displays.


Back to Basics Ledger Module
G/L Startup
Before continuing you must have the following:
1. Two blank disks
2. Your Chart of Accounts
3. Your Account Balances
OK

3. Position the pointer on OK and click. The G/L Startup screen displays.



4. Complete each field using the guidelines that follow. Press Return to advance from field to field.

Startup Date: This is the month and year you will start entering financial transactions. For example, enter January 1985 as **0185**.

Company ID: Enter a six-character identification code for the business. For example, Scott's TV Sales and Service might enter **Scotts** as their Company ID.

Password: Enter a six-character identification code for security purposes. Once entered, you cannot change the password. *Don't forget it.*

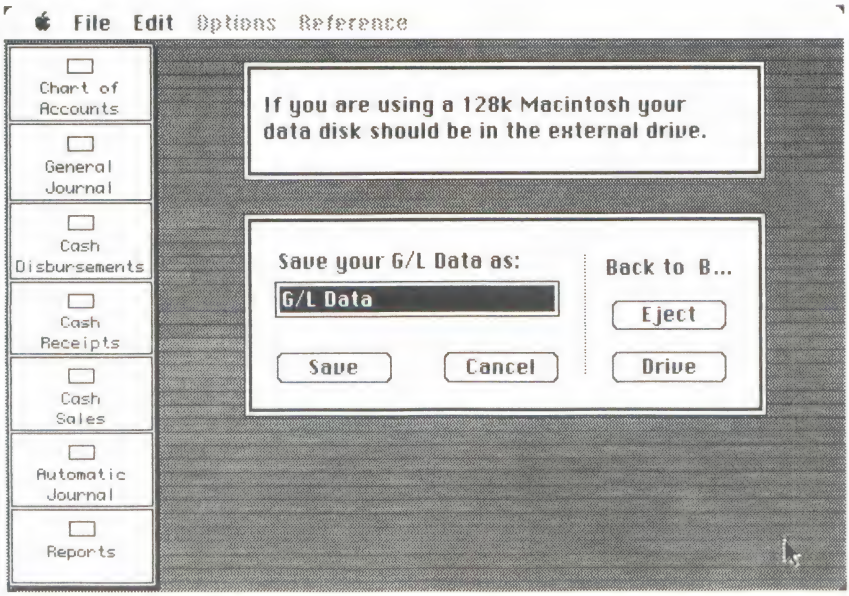
Use Cost of Sales Range (Y/N)?: Reply **Yes**, to print Cost of Sales on the Income Statement. Reply **No**, if this question does not apply.

Use the Standard Chart of Accounts (Y/N)?: You have the option of using the Chart of Accounts on your system and modifying it or loading your own Chart of Accounts. If you do not accept the standard Chart of Accounts, you must enter Cash and Retained Earnings account numbers.

Cash Account: Enter the cash account number that is your primary checking account. The account number must be between 1000 and 1999.

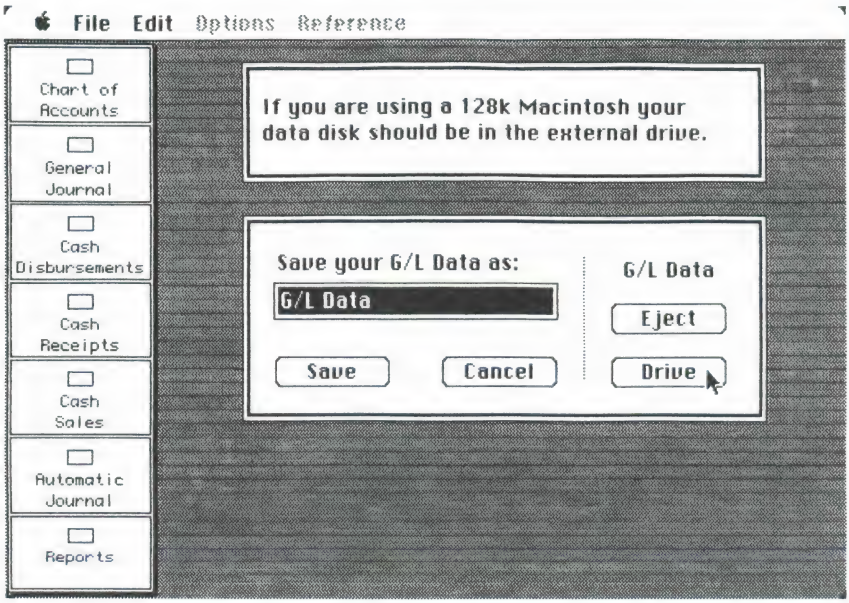
Retained Earnings Account #: Enter the account number to which you will post your net income or loss. The account number must be between 3000 and 3999.

5. Press Return to record the information on the G/L Startup screen. The following screen displays.



6. To create your G/L Data file, you have to tell the system where to create it. To do this, move the pointer to the Drive button and click. Your screen will look like this.

Note to single-drive users: You'll create your data on the same drive that you run your Program Disk on. Click the Eject button in the Dialog box, then insert a blank data disk.



7. The dialog box now shows the name of the disk in your external drive. It also shows a default name of G/L Data for your data file. You can accept the default name or enter a different name.

Now, click the Save button. The following message displays:

Your General Ledger data file is being prepared. Please stand by.

Entering Company Information

Now you'll tell Back to Basics the name of your business and how to print the name on reports, how to organize and print the information on the income statement and balance sheet, which reports you want to print at Month End and Year End, and more.

To enter your information, select the Options menu, then highlight each of the following:

- Company Name
- Multiple Cash Accounts
- Departmentalize Income
- Classify Income Statement
- Classify Balance Sheet
- Posting Configuration
- Advanced Operation

Complete each screen using the guidelines given on the following pages. Some of the options may not apply to your company. *Be sure to click the Record button to enter each screen before proceeding to the next screen.*

Company Name

Enter the name of your business (30 characters maximum). Click the Record button or press Return to enter the information.

Multiple Cash Accounts

You can enter three cash accounts to use in the Cash Receipts and Cash Disbursements files. You cannot change these accounts once you have entered them. Additional Money Market or similar accounts can be set up in the Chart of Accounts. Click the Record button, then click the Close box.

Departmentalize Income

If you departmentalize your revenue and expense accounts, click the mouse in the square to select it. This allows you to produce a separate Income Statement for each department. If you do not departmentalize, leave the square blank. Click the Record button.

If you departmentalize, you can print up to 11 income statements, one for each department plus a consolidated statement. When you departmentalize, you'll set up income and expense accounts for each department, using the department number as the last digit of the account number. When you print the Departmentalized Income Statement, all accounts with the same department number will print on the same report.

Classify Income Statement

Revenue Range: Click the Revenue button. Enter an account number range to produce subtotals on the Income Statement. You can enter five different ranges. The number range must be between 4000 and 4499 if you are using a Cost of Sales range. You must enter 4499 as the end of the Revenue Range. If a Cost of Sales range is not entered, the revenue range can be between 4000 and 4999. In this case, you must enter 4999 as the end of the Revenue range. Press Return to record the information.

Cost of Sales Range: Click the Cost of Sales button. Enter a Cost of Sales range to show the Cost of Goods Sold on the Income Statement. You can divide the Cost of Sales section into five divisions. Enter the highest account for each range and a description of what you want to appear on the report. The number range must be between 4500 and 4999. You must enter 4999 as the end of your Cost of Sales range. Press Return to record the information.

Expense Range: Click the Expense button. Expenses can be broken down into five subtotals or combined into one total. Specify the description you want to appear on the Income Statement and the beginning and ending account numbers for that subtotal. The expense account number range is 5000 to 9999. You must enter 9999 as the last account number in your Expense range. Press Return to enter the information.

Classify Balance Sheet

Asset Range: Click the Asset button. Enter the account number to classify your assets into subtotals. Up to five subtotals can be specified. For example, accounts 1000-1499 are Current Assets; 1500-1999 are Fixed Assets. The account numbers must be in the range specified on the bottom of the screen. Each account range must be higher than the previous one. Each account in a subtotal must be larger than the preceding account number. The last account number must be 1999 in the Asset range. Press Return to enter the information.

Liabilities Range: Click the Liabilities button. Enter the account number to classify your liabilities into subtotals. You can specify up to five subtotals for liabilities. For example, accounts 2000 to 2499 would be current liabilities; 2500 to 2999 would be fixed or long-term liabilities. The account range must be in the range specified on the bottom of the screen, and each account in a subtotal must be larger than the preceding account number. You must end the Liabilities range with account number 2999. Press Return to enter the information.

Equity Range: Click the Equity button. Up to five equity subtotals can be entered on the Balance Sheet. Enter the highest account number for each range and the description you want to appear on the Balance Sheet. Enter 3999 as the last range to indicate you have entered all the ranges you want. The account numbers must be in the range specified on the bottom of the screen. Each account in a subtotal must be larger than the preceding account number. Press Return to enter the information.

Posting Configuration

Back to Basics prints eight reports. Click the mouse button in the square beside each report to indicate that you *don't* want that report to print. The X in the box will then disappear:

- General Journal
- Cash Disbursements Journal
- Cash Receipts Journal
- Cash Sales Journal
- Detailed General Ledger
- Departmental Income Statement
- Consolidated Income Statement
- Balance Sheet

Advanced Operation

Use the advanced operating mode when you feel comfortable with Back to Basics and no longer need on-screen help to guard against recording incorrect information. In Advanced Mode, some safeguards are removed to increase the speed of data entry. You can easily change modes at any time from the Options menu.

Chart of Accounts File

You can add, modify, or delete accounts in the Chart of Accounts to fit your needs. Each account number must contain four digits. (The maximum number of accounts is 254.) You can enter up to ten accounts per screen before recording the screen.

The following guidelines will help you set up your Chart of Accounts:

- Use the same account number range that is on the Back to Basics Chart of Accounts.

- Group accounts by type. For example, group all current asset accounts together. Be sure to allow for expansion by leaving blank account numbers within a range.

- Back to Basics has two accounts that must be in your chart of accounts: Cash and Retained Earnings or an equity account. If you use cash sales, you must also have Cash on Hand and Cash Over/Short accounts.

Adding an Account

To add an account, click the Chart of Accounts file and select Add from the Edit menu.

Number: Enter the account number and press Return.

Name: Enter the name of the account. You can add up to ten accounts on this screen before recording the information. Click Record to accept the information

Deleting an Account

To delete an account, select the Chart of Accounts file and choose Delete from the Edit menu.

Account Number: Enter the account number you want to delete.

Account Name: The account name displays. Verify that this is the correct account to delete.

Note: Accounts selected for deletion will be removed during the next period you close if the following criteria are met:

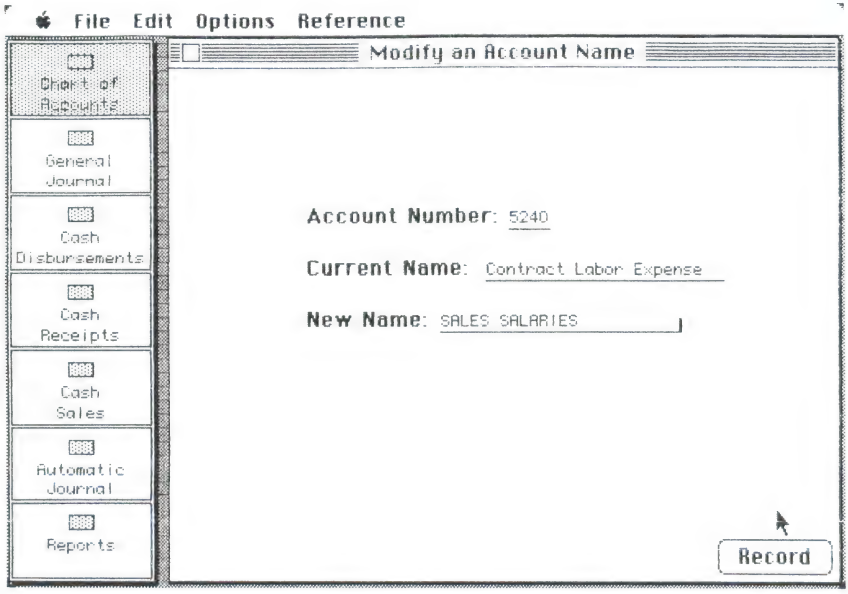
- The account is not a Multiple Cash or Retained Earnings account.
- The account has a zero balance and no transactions have been made since the last year-end close.
- The account is not used with the Cash Sales Journal or Automatic Journal entry.

Modifying an Account Name

To modify an account name, click the Chart of Accounts file and select Modify from the Edit menu.

Number: Enter the number of the account you want to change. The current name displays for verification.

Name: Enter the new account name. Press Return to accept the information, then click the Close box.

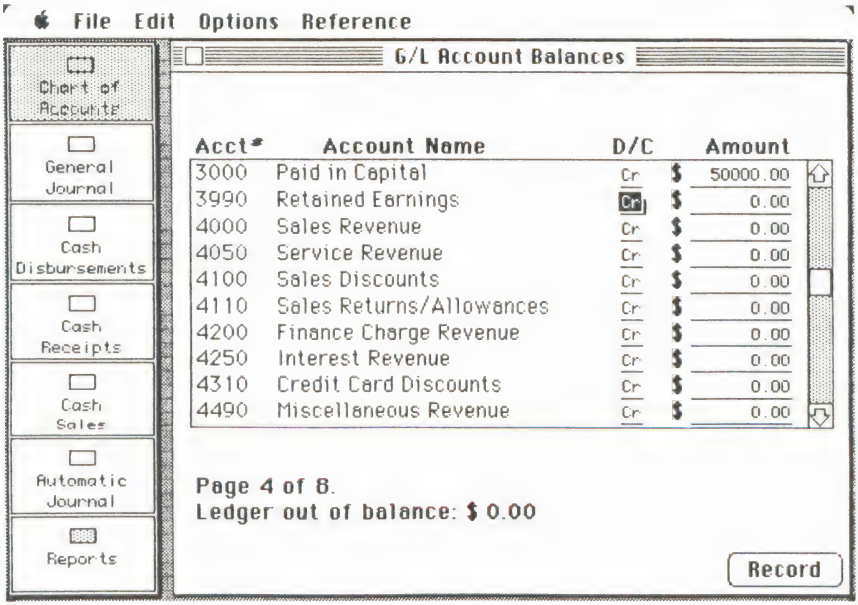


Entering Account Balances

Before entering account balances, be sure to have accurate and current balances for your accounts. Select the Chart of Accounts file and choose Setup from the Edit menu. The account numbers and names display in numeric order.

Note: The contra assets are shown with a debit default balance instead of a credit default balance. Change the debit default to credit to record all contra asset accounts. (For example, Accumulated Depreciation and Allowance for Bad Debts are contra asset accounts. For additional information, refer to the "Accounting Principles" section.)

D/C: Enter **D** for debit or **C** for credit, depending on the account balance.


File Edit Options Reference
Chart of Accounts
General Journal
Cash Disbursements
Cash Receipts
Cash Sales
Automatic Journal
Reports
G/L Account Balances
Acct# Account Name D/C Amount
3000 Paid in Capital Cr $ 50000.00
3990 Retained Earnings Cr $ 0.00
4000 Sales Revenue Cr $ 0.00
4050 Service Revenue Cr $ 0.00
4100 Sales Discounts Cr $ 0.00
4110 Sales Returns/Allowances Cr $ 0.00
4200 Finance Charge Revenue Cr $ 0.00
4250 Interest Revenue Cr $ 0.00
4310 Credit Card Discounts Cr $ 0.00
4490 Miscellaneous Revenue Cr $ 0.00
Page 4 of 8.
Ledger out of balance: $ 0.00
Record

Ledger Out of Balance: Each time you enter an amount, this total changes. The total must be zero to record a transaction (except when entering balances during Startup). A safeguard has been built into Back to Basics so that you cannot enter transactions until the debits and credits are equal.

Use the scroll bar to go from screen to screen during setup to enter and verify information. To do this, drag the scroll box to the top or bottom of the window.

Click Record to enter the information. Back to Basics will ask you to verify that all balances are correct. If an incorrect balance is entered, you can change it by using the mouse to go back to that balance and enter the correct amount.

Printing Reports

Print a copy of the Chart of Accounts and a Trial Balance. Verify that the totals on the Trial Balance are zero before you run the Complete Startup procedure.

Print Reports: To print your Chart of Accounts, select the Reports file, choose Chart of Accounts from the Journals and Reports menu, and click Print. After printing the Chart of Accounts, print a Trial Balance. Check to be sure your Chart of Accounts is correct and verify that each account balance is accurate and that the totals on the Trial Balance are zero before you run Complete Startup.

Completing Startup Procedures

Select the Chart of Accounts file, then choose Complete Startup from the File menu. After you run Complete Startup, the File menu displays Post General Ledger instead of Complete Startup.

Note: Back to Basics displays a message asking you to confirm that all account balances are correct. If not, any errors can be corrected by returning to Setup and entering the correct information. After running Complete Startup, you must correct account balances by entering correcting journal entries.

Backing Up Your Data Disk

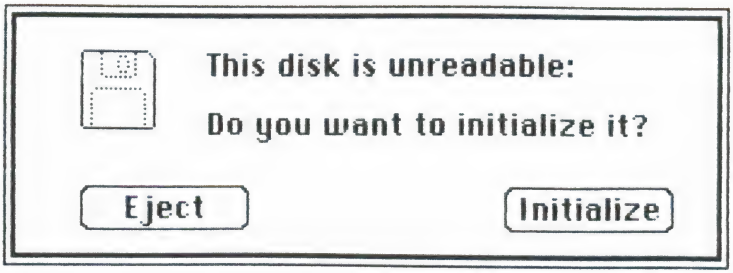
Now that you have set up Back to Basics for your company, you'll make a backup copy of the Data Disk. If something happens to a disk or file, all the information could be lost. Backing up will ensure that you have a replacement disk.

We recommend that you create a backup copy of your Data Disk just before and after running Complete Startup, and before running Post General Ledger at Month End. Also, create a Backup Data Disk before Year End processing. The Backup Data Disks that you create before Month End and Year End can be used during later periods to access information from that month's period. If you enter a large number of transactions during a session, you should create a Backup Data Disk. Keep your Backup Data Disk in a safe place.

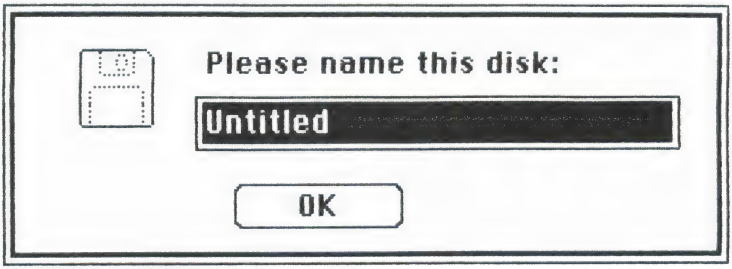
The following instructions guide you through the steps of making your first Backup Data Disk:

1. After starting up your system, insert the disk containing the data file you want to copy into the internal drive. The icon for that disk appears on the screen.

2. Insert into the external drive the disk you want to use as a Backup Data Disk. If your Backup Data Disk has not been used with the Macintosh before, it will have to be initialized. The following dialog box appears:

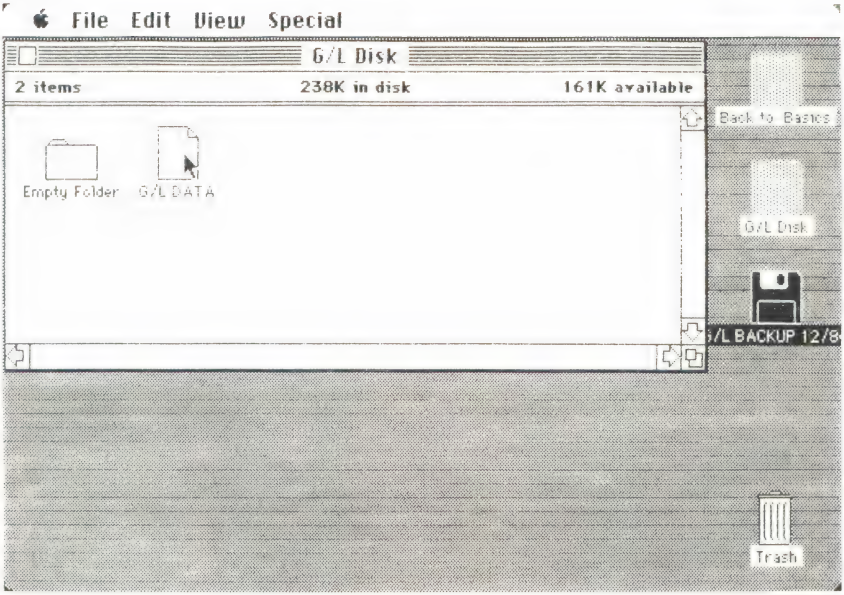


3. Choose **Initialize** from the dialog box. The following dialog box then displays:



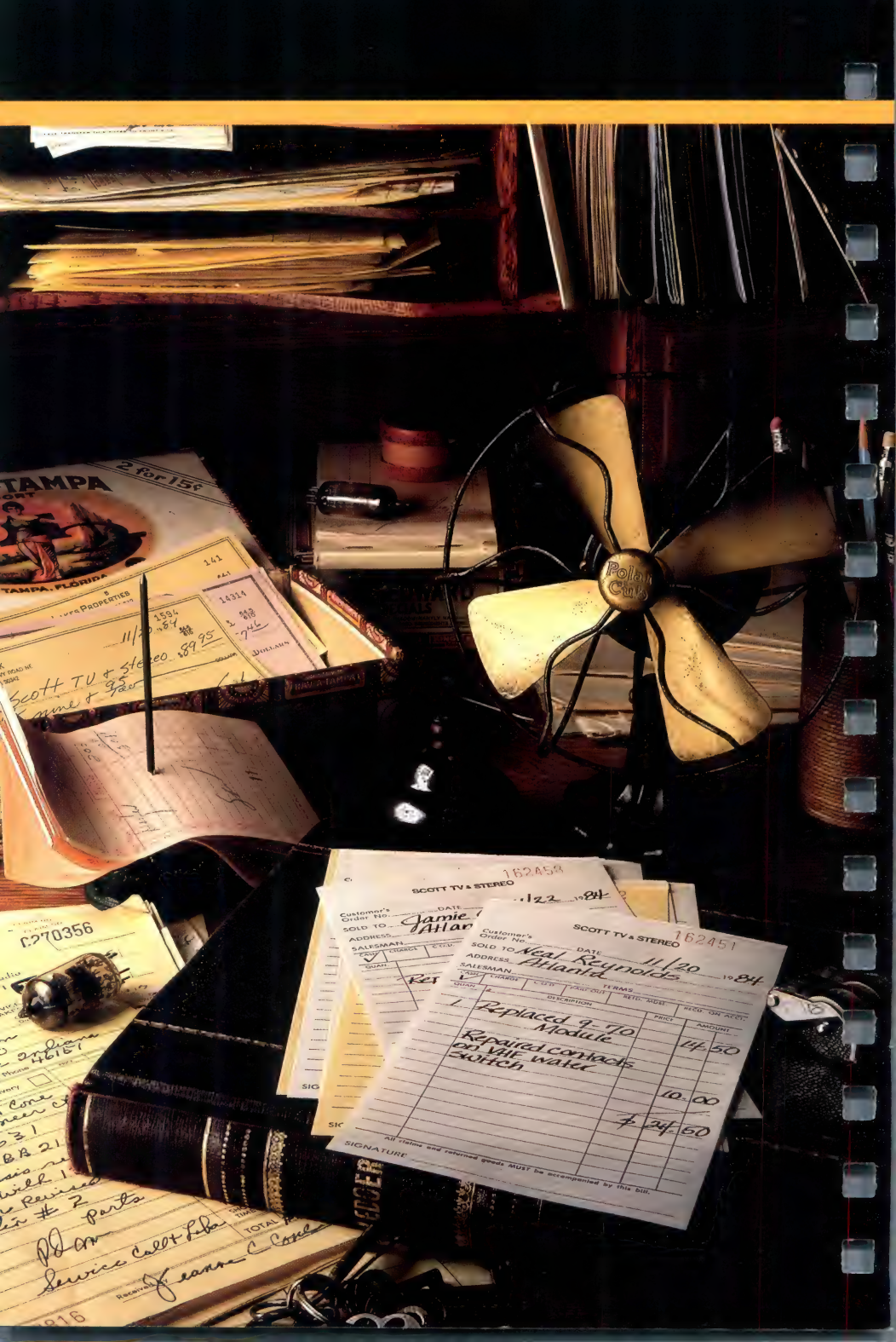
4. Give the disk a title that describes the information it contains and distinguishes it from your other disks. For example, name the disk G/L Data Backup. You are copying the G/L Data file you created from one disk to another disk.

5. Double-click the G/L Data icon. As the diagram illustrates, select and drag the G/L Data File icon to the G/L Data Backup icon.



6. When copying is complete, rename the Backup Data file. You may want to use the date you created the Backup Data Disk as the filename; for example, if you created a Backup Data Disk on 10/31/84, rename the file G/L 10/31/84. For additional instruction on renaming a disk, refer to your Macintosh manual.

We recommend that you establish a rotating schedule for your Backup Disks. Make a backup after each session if you enter a large number of transactions.


TAMPA
2 for 15¢
TAMPA, FLORIDA
Polar Cub
SCOTT TV & STEREO
162458
Customer's Order No.
DATE
SOLD TO
ADDRESS
SALESMAN
SCOTT TV & STEREO
162451
Customer's Order No.
DATE 11/20 1984
SOLD TO Neal Reynolds
ADDRESS Atlanta
SALESMAN
TERMS
QUAN.
CHARGE
C.O.D.
CALL OUT
RETD. MDSE.
RECD. ON ACCT.
DESCRIPTION
PRICE
AMOUNT
1 Replaced 9-70 Module
14.50
Repaired contacts on VHF water switch
10.00
$ 24.50
All claims and returned goods MUST be accompanied by this bill.
SIGNATURE
C270356
Service Call & Labor
Jeanne C Cone
TOTAL

A Little Practice

3

A Little Practice

In "A Little Practice," you'll explore Back to Basics and see exactly how the program works. You'll learn how to start up, enter transactions, make corrections, and print reports.

Back to Basics is easy to use. Throughout the program, dialog boxes display if you enter a response that is different from the response that the Back to Basics program expects. Click the appropriate button and continue. When corrections need to be made on the screen, use the mouse to position the cursor on that field and make the correction. Then click and record the changes.

For practice, you'll enter information for Scott's TV & Stereo, a small sales and service company just beginning business.

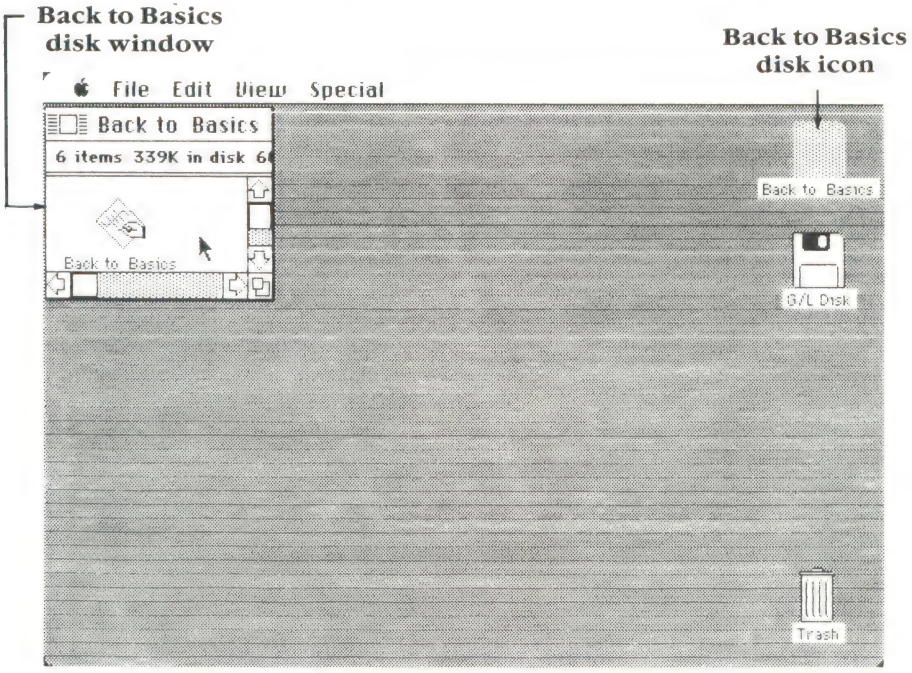
Note: Only accounts that are on the Chart of Accounts in Appendix A are used in "A Little Practice."

You'll need the Back to Basics General Ledger Program Disk, a blank disk labeled "Sample Data Disk," and this manual.

Turn your Macintosh on. Ready!

Loading the Program With a Blank Data Disk

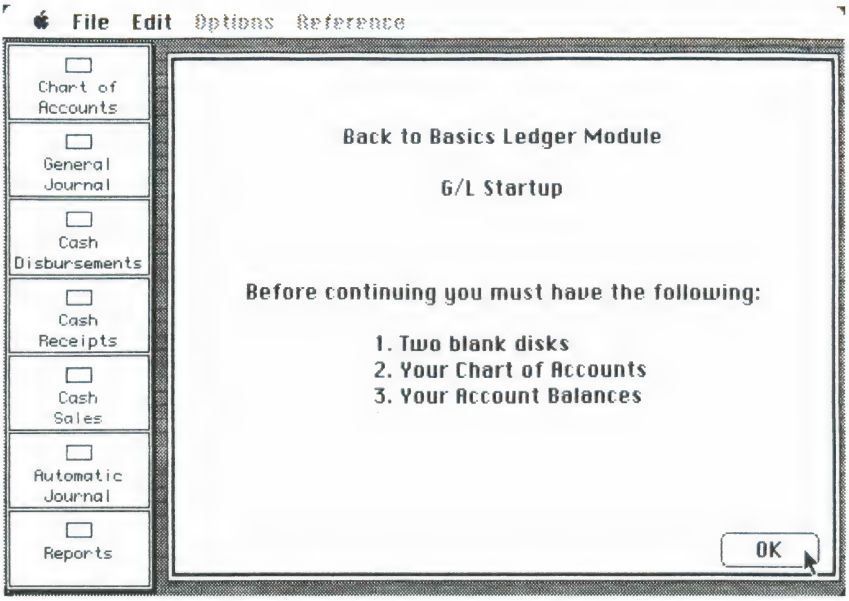
Place the Back to Basics Program Disk in the internal drive. Slide the disk into the drive, shutter end first and label side up. Place a blank disk in the external drive. Momentarily, the Desktop screen displays.



Use the following procedure to load your program.

1. From the Back to Basics disk window, double-click the Back to Basics icon. If the Back to Basics window is not shown on your Desktop, double-click on the Back to Basics icon.

2. Select the File menu and click New. The following screen displays.



3. Position the pointer on OK and click. The G/L Startup screen displays.

4. Complete each field using the guidelines that follow. Press Return to advance from field to field.

Startup Date: Enter the first day of the current month and year. For this practice session, enter January 1985 as **0185**. Press the Return key.

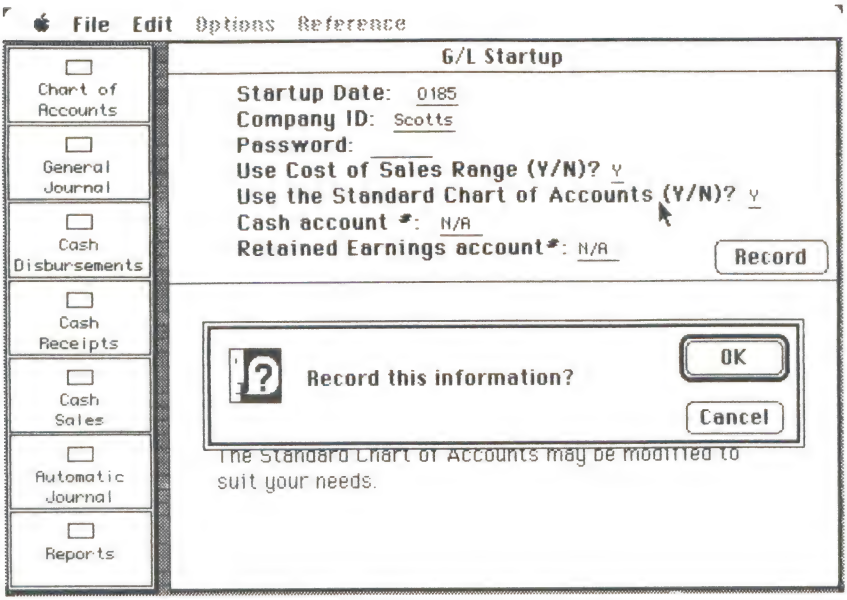
Company ID: Type a six-character word that identifies your business—**Scotts**. Press the Return key.

Password: Do not enter a password. Press Return.

Use Cost of Sales Range (Y/N)? Reply **Y** for yes, to show Cost of Sales on the Income Statement.

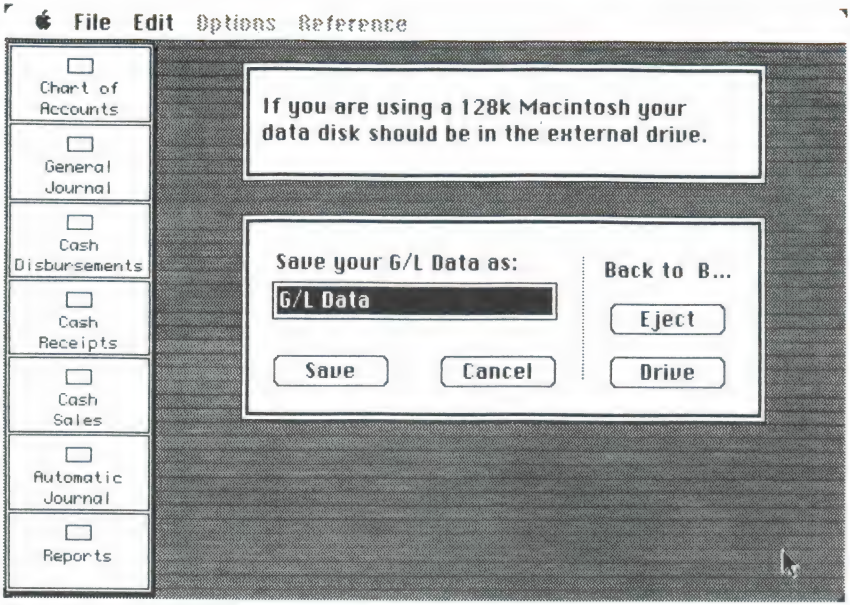
Use the Standard Chart of Accounts (Y/N)? Enter **Y** to accept the Chart of Accounts; you'll make adjustments to it later. When you press Return at the Chart of Accounts field, the Cash Account and Retained Earnings account will automatically display N/A. Because you are using the Standard Chart of Accounts, these numbers are already recorded.

Your screen should now look like this:



5. Press Return or click the OK button to enter the information.

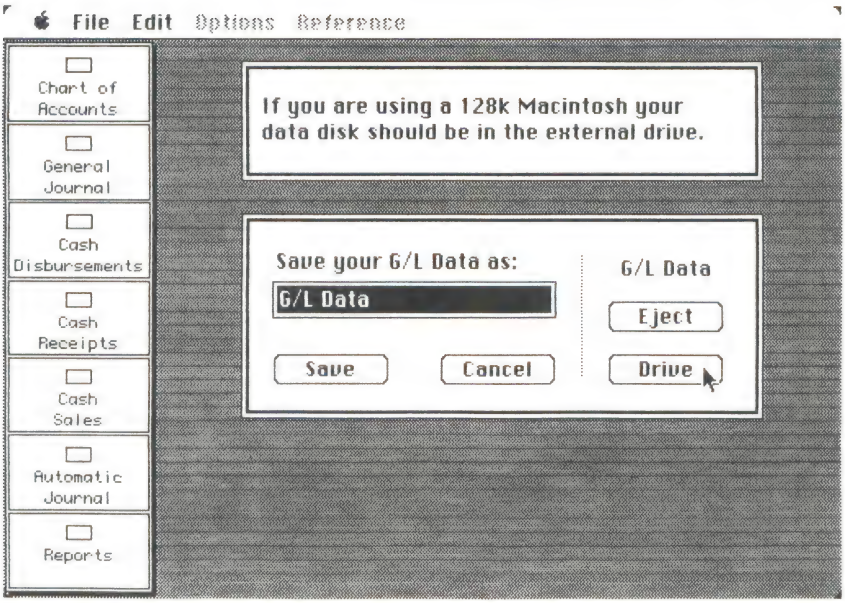
The following screen displays.



Creating the G/L Data Disk

To create your G/L Data, you have to tell the system where to create it. To do this, move the pointer to the Drive button and click.

Note to single-drive users: You will create your data on the same drive that you run your Program Disk on. Click the Eject button in the dialog box and then insert a blank Data Disk.



The dialog box now shows the name of the disk in your external drive. It also shows a default name of G/L Data for your data file. You can accept the default name or enter a different name. Now click the Save button. The following message displays.

Your General Ledger Data file is being prepared. Please stand by.

Personalizing Your System

Complete the next several screens on the Back to Basics Ledger Module by entering the information in the appropriate field. To enter your information, you will select the Options menu, then highlight each of the following:

- Company Name
- Multiple Cash Accounts
- Departmentalize Income
- Classify Income Statement
- Classify Balance Sheet
- Posting Configuration
- Advanced Operation

Complete each screen, using the guidelines given on the following pages. *Be sure to click the Record button before leaving each screen.* It is not necessary to access an Option that you are not going to change.

Company Name: Type the name of the business, **Scott's TV & Stereo**.

Press Return.

Multiple Cash Accounts: No response is required; the account has already been set up.

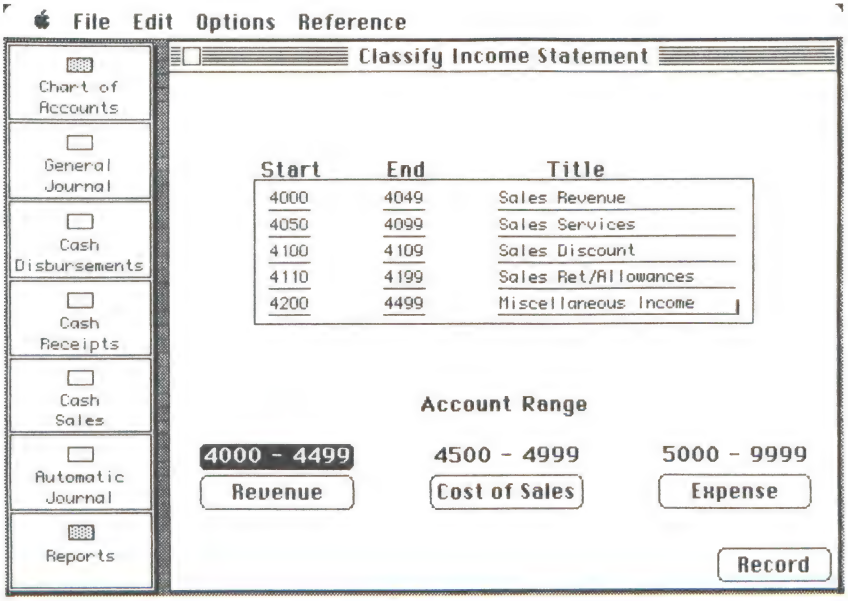
Departmentalize Income: No response is required; you don't want to departmentalize income.

Classify Income Statement: Use the following breakdown of accounts for the Income Statement.

Revenue ranges:

Click the Revenue button and enter the following Revenue Ranges.

4000-4049 Sales Revenue
4050-4099 Sales Services
4100-4109 Sales Discount
4110-4199 Sales Ret/Allowances
4200-4499 Miscellaneous Income

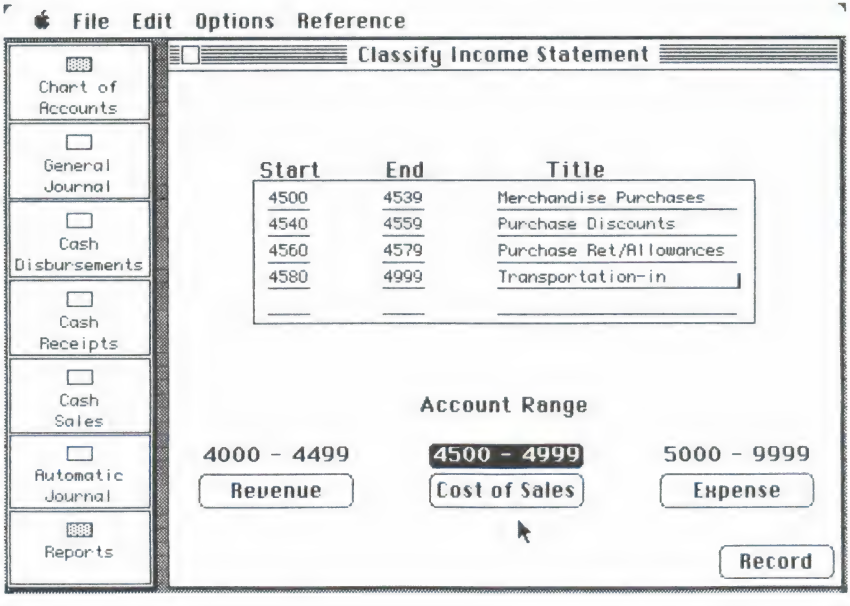


Press Return and respond OK.

Cost of Sales range:

Click the Cost of Sales button and enter the following Cost of Sales ranges.

4500-4539 Merchandise Purchases
4540-4559 Purchase Discounts
4560-4579 Purchase Ret/Allowances
4580-4999 Transportation-in



Press Return and respond OK.

Expense range:

5000-9999 This is one division; no entry is required.

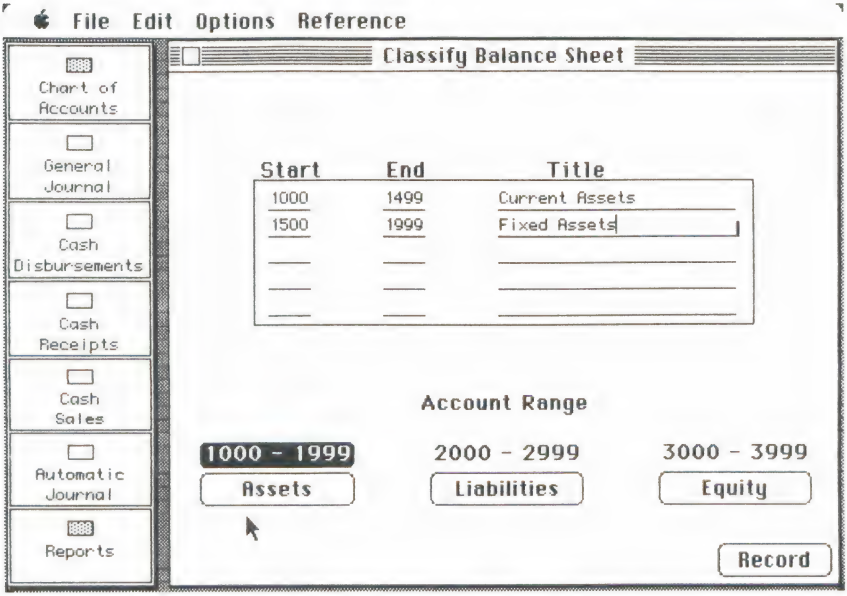
Click the Close box and return to the Option menu.

Classify Balance Sheet: Use the following breakdown of accounts for the balance sheet.

Assets:

Click the Asset button and enter the following information.

1000-1499 Current Assets
1500-1999 Fixed Assets



Press Return.

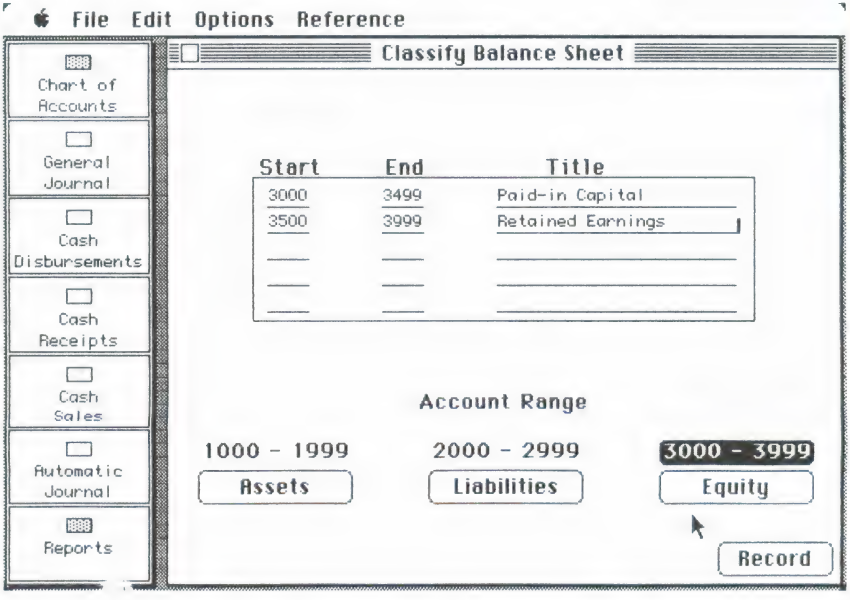
Liabilities:

2000-2999 Liabilities. This is one division; no entry is required.

Equity:

Click the Equity button and enter the following information.

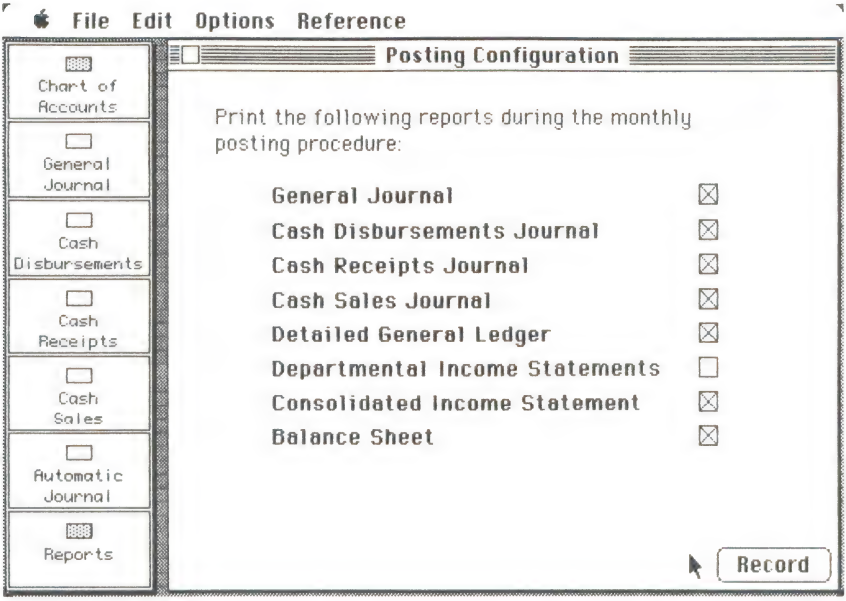
3000-3499 Paid-in Capital
3500-3999 Retained Earnings



Press Return and click the Close box to return to the Option menu.

Posting Configuration: Check to print all reports except Departmental Income Statement. To do this, position the pointer on the Departmental Income Statement square and click once. The X beside the report name will disappear.

Your screen should now look like this:



Click the Record button.

Advanced Operation: Use Advanced Operation when you feel comfortable with Back to Basics and no longer need on-screen help to guard against recording incorrect information. In Advanced mode, some safeguards are removed to increase the speed of data entry. You can easily change modes at any time from the Options menu.

The Chart of Accounts

You're now ready to adapt the Chart of Accounts to the requirements of Scott's TV & Stereo.

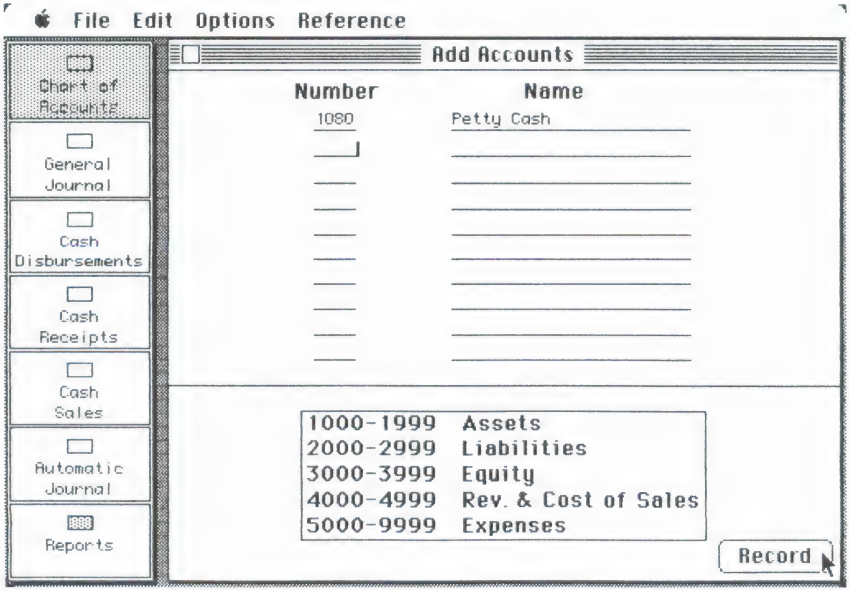
Adding an Account

After checking the Chart of Accounts in Appendix A, you find that it does not have some of the accounts that you need for the Sample Company. Scott's needs a Petty Cash account, and the account is not listed.

To add the Petty Cash account, select the Chart of Accounts file and choose Add from the Edit menu. The Add Accounts screen displays.

Enter **1080** in the Number field. Enter **Petty Cash** in the Name field.

Your screen should now look like this:



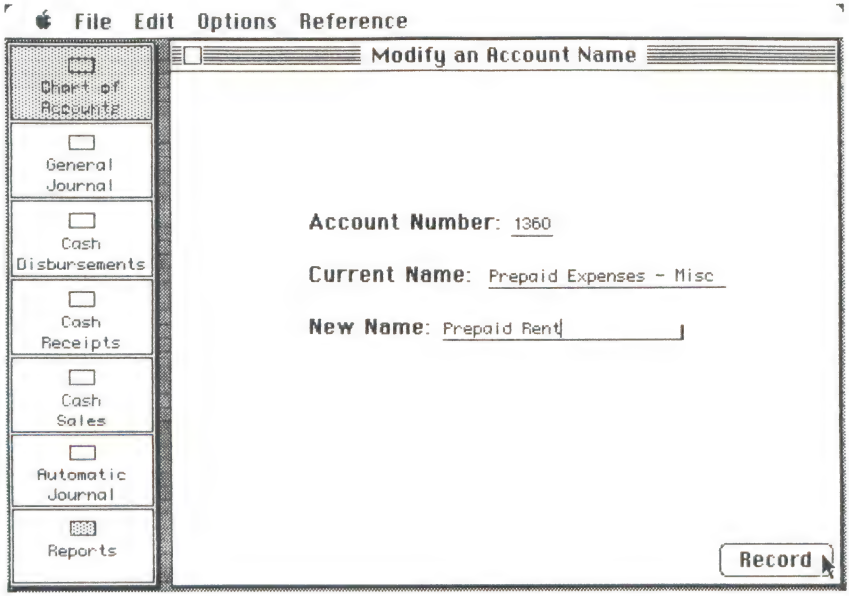
Click Record to enter the information, then click the Close box.

Modifying an Account Name

Prepaid Rent is not listed on the Chart of Accounts, but Prepaid Expense—Misc. is listed. You need to change the Prepaid Expenses—Misc. to Prepaid Rent.

Select Modify from the Edit menu. The Modify G/L Account screen displays. In the Account Number field, enter **1360**. Press Return. The account name displays. Verify that this is the account you want to change. Enter **Prepaid Rent** in the New Name field.

Your screen should look like this:



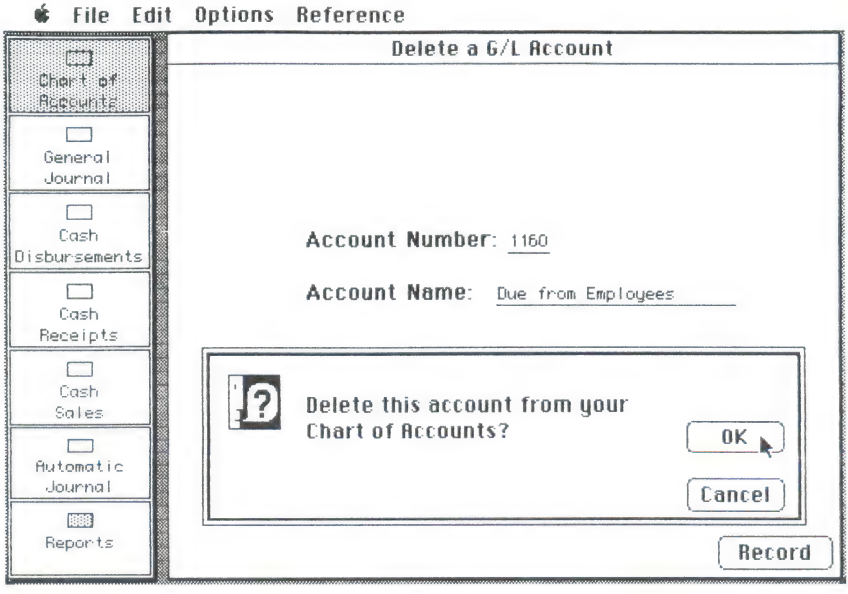
Press Return, or select Record and click. After you respond OK to record the information, click the Close box.

Deleting an Account

Scott's doesn't need account number 1160, Due From Employees, so you'll delete it.

Select Delete from the Edit menu. The Delete G/L Account screen displays. Enter **1160** in the Account Number field; press Return. Back to Basics displays the account name. Verify that this is the correct account.

Your screen should look like this:



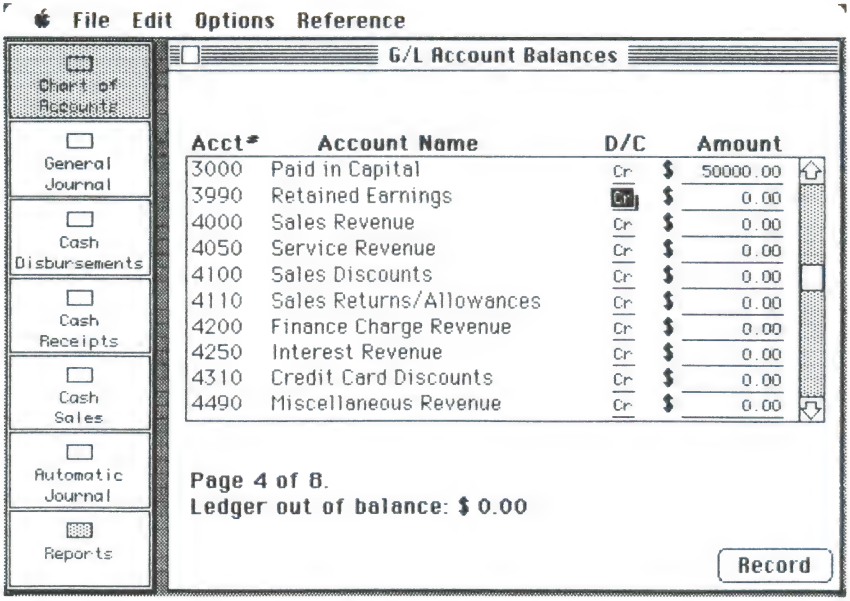
Click OK, then click the Close box.

Adding Account Balances

To add account balances during startup, select Setup from the Edit menu. The G/L Account Balance screen displays. To add two account balances to the practice company's accounts, do the following:

1. Locate account number 1000, Cash in Bank, on the G/L Account Balance screen.
2. In the D/C field, accept the **Dr** for debit by pressing Return.
3. Type **50000** in the Amount field and press Return.
4. Use the mouse to move the scroll bar to account number 3000, Paid-in Capital.
5. The D/C field remains as a Credit.
6. In the Amount field, enter **50000** and press Return.
7. Notice the Ledger Out of Balance field displays a $0.00 balance.

Your screen should now look like this:


File Edit Options Reference
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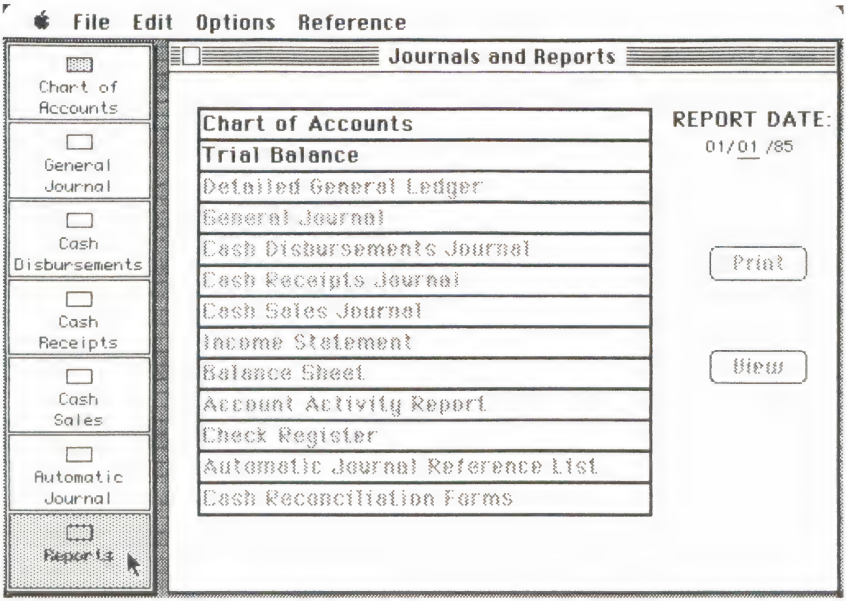
General Journal
Cash Disbursements
Cash Receipts
Cash Sales
Automatic Journal
Reports
G/L Account Balances
Acct# Account Name D/C Amount
3000 Paid in Capital Cr $ 50000.00
3990 Retained Earnings Cr $ 0.00
4000 Sales Revenue Cr $ 0.00
4050 Service Revenue Cr $ 0.00
4100 Sales Discounts Cr $ 0.00
4110 Sales Returns/Allowances Cr $ 0.00
4200 Finance Charge Revenue Cr $ 0.00
4250 Interest Revenue Cr $ 0.00
4310 Credit Card Discounts Cr $ 0.00
4490 Miscellaneous Revenue Cr $ 0.00
Page 4 of 8.
Ledger out of balance: $ 0.00
Record

Click Record to enter the information.

Printing Reports

You have the option of viewing or printing a report. To print a report, double-click on the Reports file drawer. The Journals and Reports screen displays. Only the Chart of Accounts and Trial Balance are in bold; all other reports are dimmed and cannot be accessed.

Your screen should look like this:



Select the Chart of Accounts and click Print to print the report. Then select the Trial Balance and click Print.

Completing Startup

To run the Complete Startup procedure, choose Complete Startup from the File menu, and respond OK to accept the starting balances. Complete Startup can only be accessed during the actual startup procedures. Back to Basics tells you to make a backup copy of your G/L Data file. To do so, follow the instructions in "Backing Up Your Data Disk" in the previous chapter.

Note: The Complete Startup command subsequently changes to Post General Ledger on the File menu.

Entering Transactions

You have successfully completed startup for Back to Basics. Now you're ready to make entries for the practice company. You will make cash receipts, cash disbursements, general journal and automatic journal entries. You'll also void transactions and print reports.

Cash Disbursements Journal

Use the Cash Disbursements Journal to enter checks and other disbursements. Back to Basics automatically increases the check number by one. However, you can change the check number if you want. The primary cash account displays on the first line of the entry field. You can change the primary cash account to any other cash account you have entered in the Multiple Cash Accounts option.

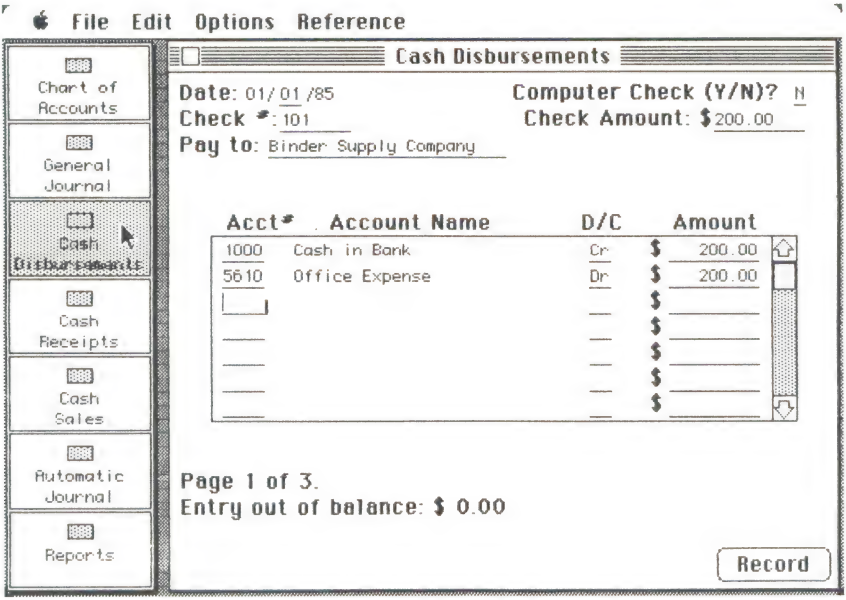
Note: If you reply **Y** to Computer Check, you cannot enter a check number. N/A (not applicable) appears in the Check # field. You will assign check numbers when checks are printed.

To enter a Cash Disbursement, double-click on the Cash Disbursements file. The Cash Disbursements screen displays.

Enter #1:

Scott purchases office supplies from Binder Supply Company for $200 and writes check number 101.

Enter the information shown on the screen.



Click Record to enter the information.

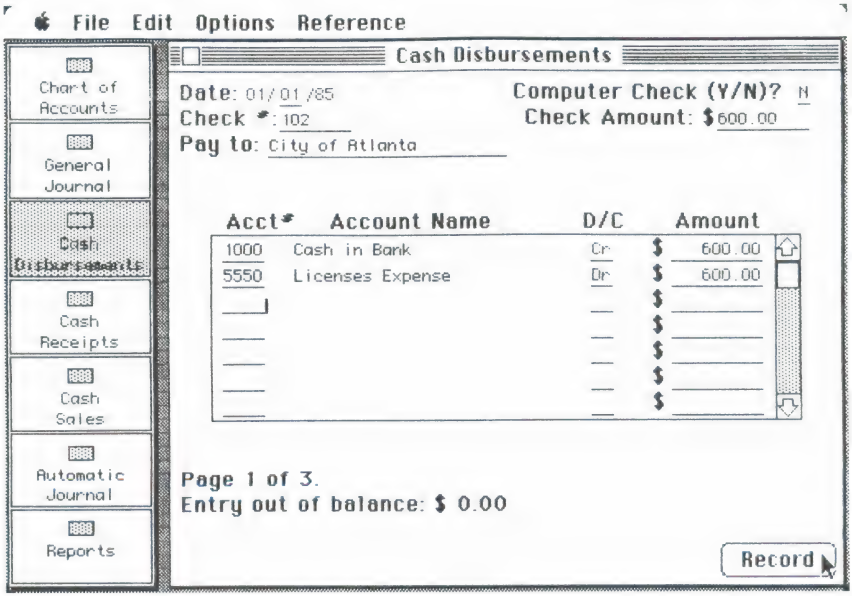
Entry #2:

Scott wrote check number 102 for $600 to the City of Atlanta for a business license. This is a handwritten check.

Since you're displaying the Cash Disbursements screen, continue with your entries.

Note: Sometimes, you won't know an account number. When this happens, you can move the mouse to the Reference menu, then select Chart of Accounts. Scroll the Chart of Accounts until you find the account you need. (In this case, you would look for License Expense.) Move the pointer to that account and click; the account will be highlighted. Then click the OK button, and the account number you highlighted appears in the account number field.

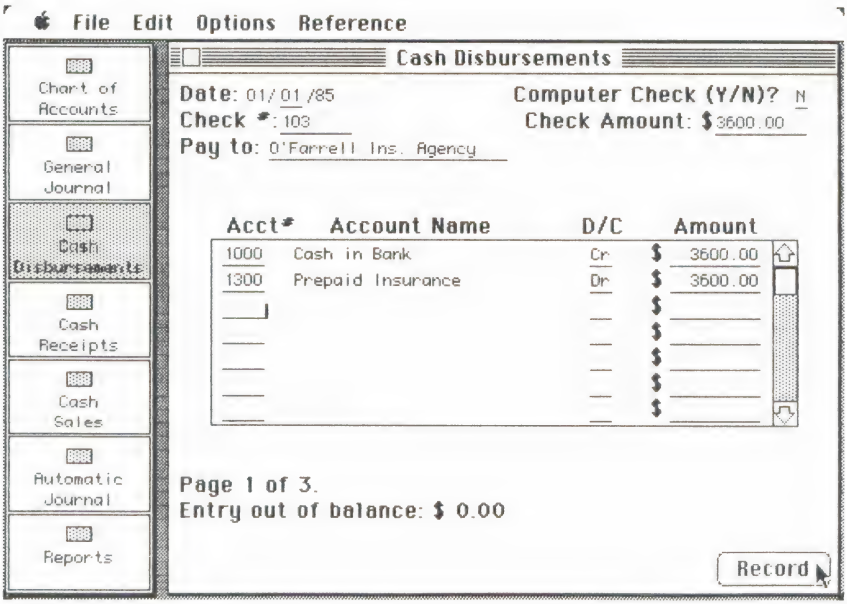
When you make the entry for check #102, your screen should look like this:



Click Record to enter the transaction.

Scott buys insurance for a one-year period and writes check number 103 for $3600 payable to O'Farrell Insurance Agency.

Your screen should look like this:



Click Record to enter the transaction. To leave the Cash Disbursements screen, or any of the other entry screens:

- Double-click another file.
- Click the Close box.
- Choose Close from the File menu.

Note: To print checks, select the File menu and choose Print Checks. Follow the prompts on your screen for the alignment mark and printing of checks.

The Cash Receipts Journal

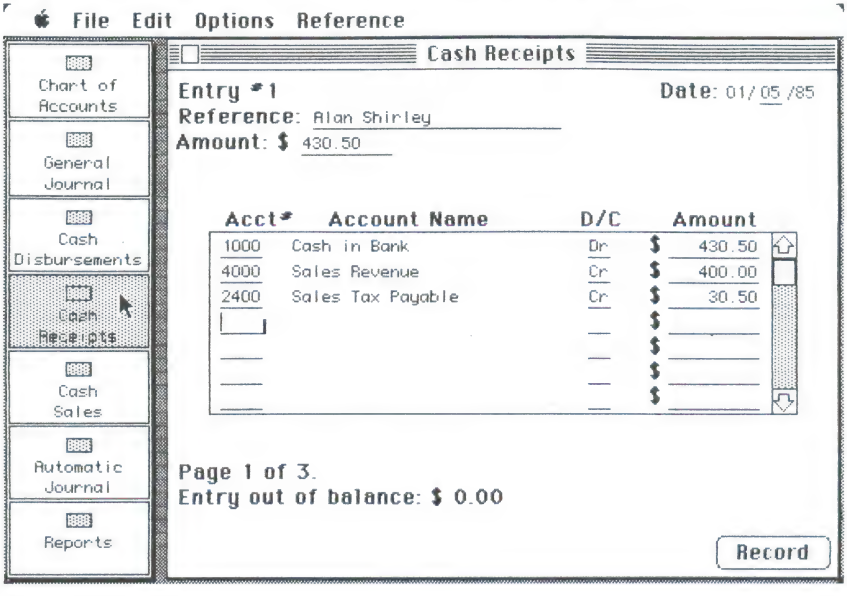
The Cash Receipts Journal records cash received by the business. You will enter transactions as they occur. When entering checks received as payment on account, enter the person's name and sales invoice number if possible. Back to Basics generates the Entry number. You cannot change this number. The primary cash account defaults on the first line of the entry field. This may be changed to any of the Multiple Cash accounts.

Entry #1:

During the first week of business, Scott makes a cash sale for $430.50 to Alan Shirley.

To enter a cash receipt, double-click the Cash Receipts file. The Cash Receipts screen displays.

After making the entry, your screen should look like this:



Click Record, then respond OK to enter the information.

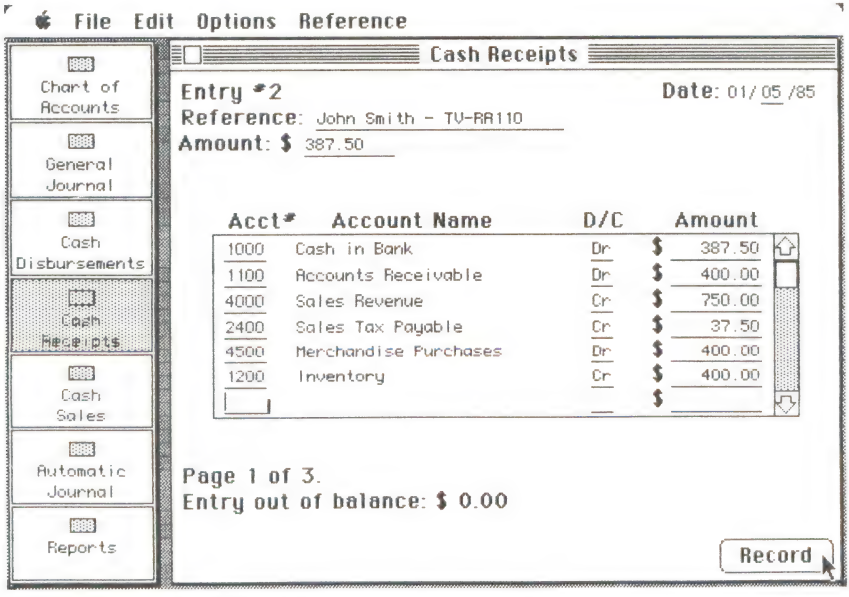
Entry #2:

The second sale for the day is to John Smith for TV model RA110. The total sale is for $750 plus sales tax of $37.50. You receive $387.50 cash and charge $400 to John Smith's account.

For Scott's inventory purposes, you decide to determine the cost of merchandise sold after each sale is made. The cost of the television is $400.00.

Hint: Use the Reference field as an aid to keep accurate records for your Accounts Receivable. You can record the sales invoice number for easy access to more details about the transaction.

After entering the above information, your screen should look like this:



Select Record and click. To leave the Cash Receipts screen, click the Close box.

General Journal Entries

Use the General Journal to make entries that are not made in other journals, such as the Cash Disbursements or Cash Sales Journals. For example, if Scott purchases a delivery truck and issues a note payable, you would record the transaction in the General Journal.

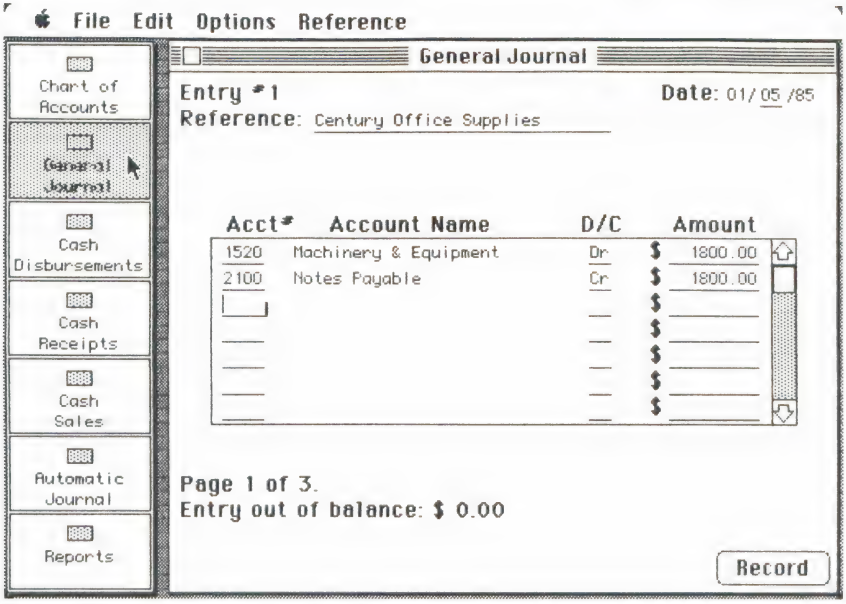
Each entry must have at least one debit and one credit. The journal entry number 1 is generated by Back to Basics. You can accept the date by pressing Return. You can change the day but not the month or year, and you can enter a maximum of 21 accounts per journal entry. Use the Reference field to identify journal entries and to develop an audit trail. If you make more than one journal entry per screen, the reference line you enter will print after each G/L account that is debited or credited in the Detailed General Ledger.

To enter a transaction in the General Journal, double-click on the General Journal file. The General Journal screen displays. Enter the following information.

Entry #1:

Scott purchases a copier from Century Office Supplies for $1800. A 90-day, 14 percent note is issued to Century Office Supplies for $1800.

Your screen should look like this:

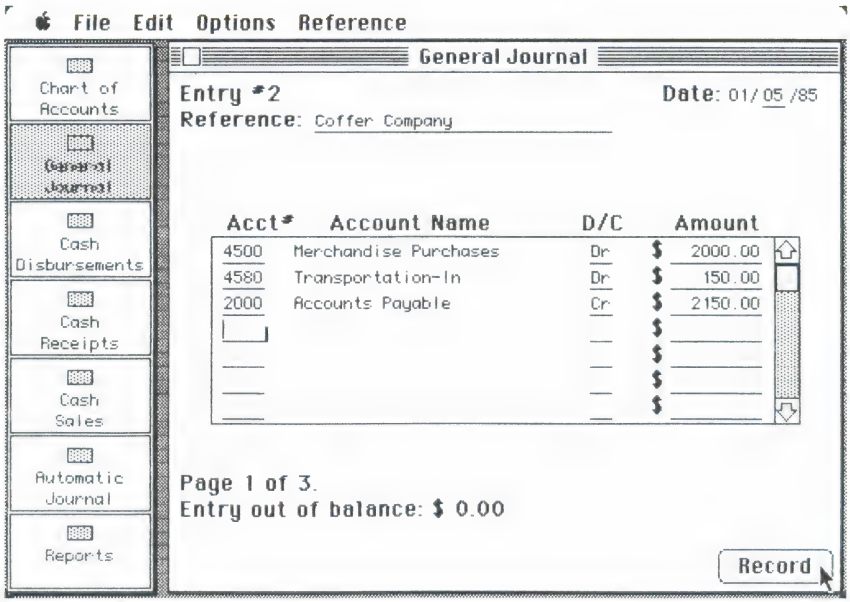


Click Record then respond OK.

Entry #2:

Scott purchases merchandise on account from Coffer Company for $2,000 and paid freight charges of $150.

After making Entry #2, your screen should look like this:



Click the Record button.

Automatic Journal Entries

Automatic journal entries record transactions that are the same each month. There must be one debit and one credit for each entry. The amount must be the same each month. You can add, modify, or delete an entry. You can also view or print a listing of the entries from the Journals and Reports menu. Review these entries each month, before processing, to make sure they are correct. To process the entries, select Process Auto Journal from the Options menu.

Now you will enter two automatic journal entries for Scott's. The first entry will record depreciation (straight-line) on the copier, which costs $1800 and has an estimated life expectancy of six years. (1800 ÷ 6 = 300 ÷ 12 = 25 per month.) The depreciation expense is $25 per month.

Select the Automatic Journal file and choose Add from the Edit menu. The Add an Automatic Entry screen displays with #1 as the reference number generated by Back to Basics. You will debit Depreciation Expense and credit Accumulated Depreciation.

Entry #1:

Enter the following information.

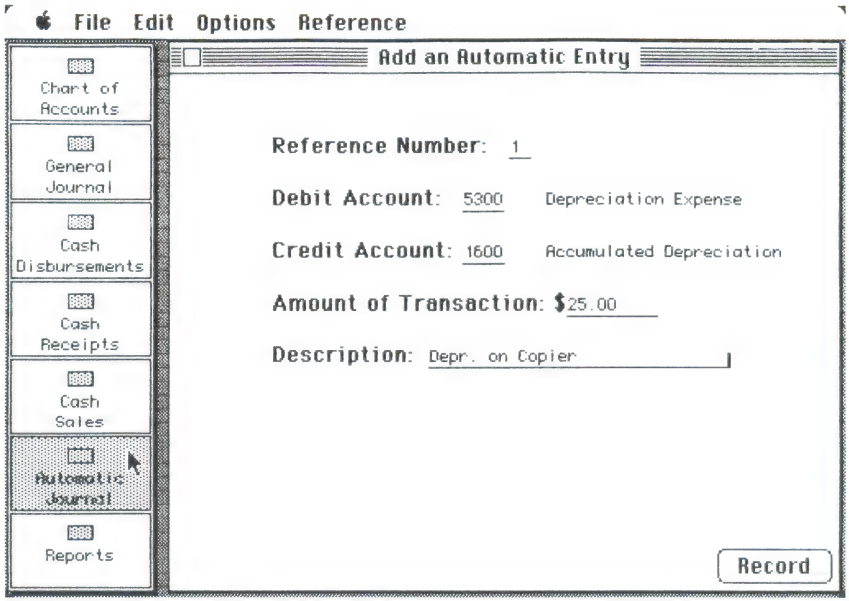
Debit Account: 5300

Credit Account: 1600

Amount of Transaction: 25.00

Description: Depr. on Copier

Your screen should look like this:



Respond OK to record the information.

Scott wants to record the monthly insurance expense with an automatic journal entry. The premium was $3600 for one year. Enter the following information.

Entry #2:

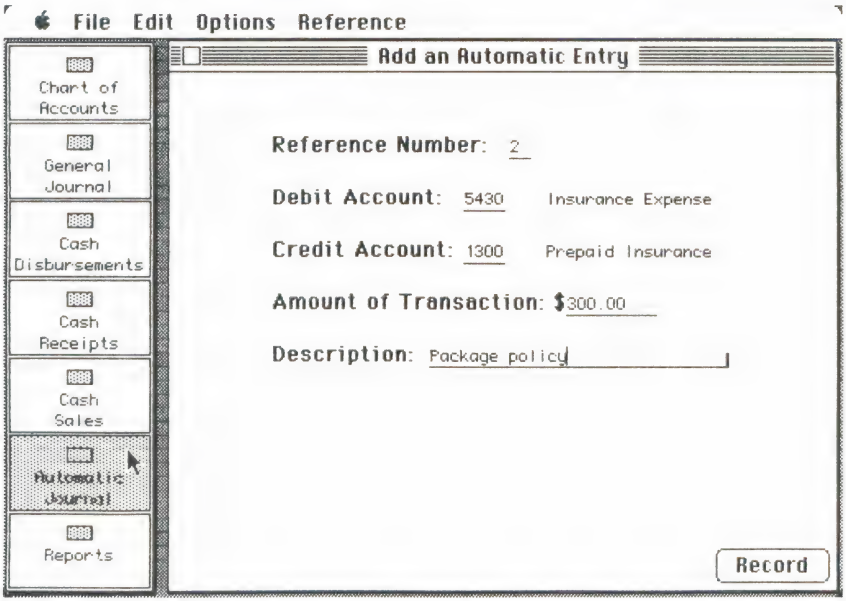
Debit Account: 5430

Credit Account: 1300

Amount of Transaction: 300.00

Description: Package policy

Your screen should look like this:



Respond OK to record the information.

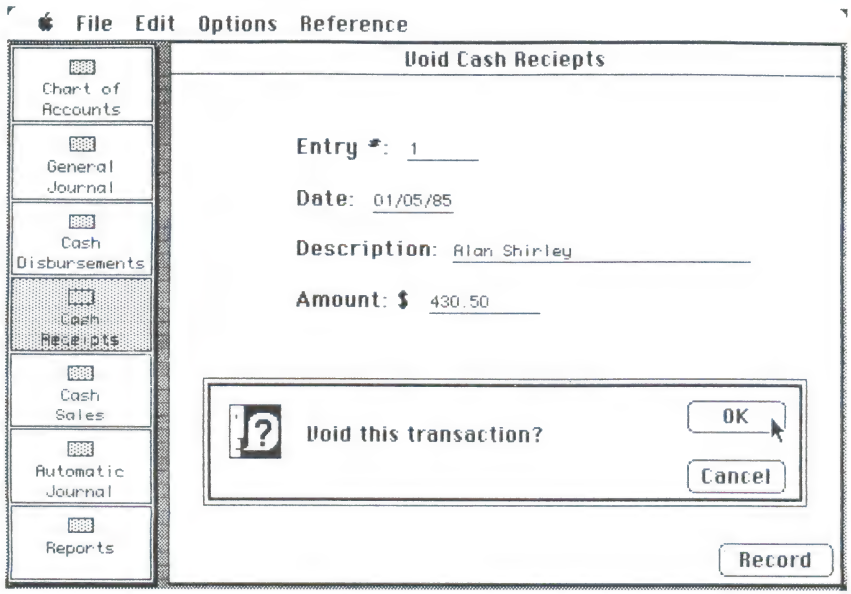
Void Transactions

At times, errors are made in recording transactions and must be corrected. To do this, Back to Basics gives you a Void Transactions option on the Edit menu. You can void an entry to the General Journal, Cash Disbursements, Cash Receipts, or Cash Sales Journals. (Use care in voiding Cash Sales entries as it can affect other accounts. Instead, use a General Journal entry.)

An error was made in Cash Receipts Entry #1. You want to void this transaction. To do so, select the Cash Receipts file and choose Void Transactions from the Edit menu. The Void Cash Receipts screen displays.

Enter Entry #1. The screen displays the date, description, and amount. Compare this information to the original Cash Receipts entry.

Your screen should look like this:



You must click on the OK button.

Congratulations! You have finished your first week of keeping accounting records for your business. You have learned to:

- Load the program.
- Complete System Startup.
- Classify an income statement and balance sheet.
- Enter the Chart of Accounts with balances.
- Enter Cash Disbursements.
- Make General Journal entries.
- Make Automatic Journal entries.
- Void Transactions.
- Print Reports.

You are now ready to set up Back to Basics for your business. You will be able to enter information directly to Back to Basics and see immediately how the transactions affect your General Ledger and financial reports. The Reference Guide section of this manual contains detailed information on the File Drawer selections and suggestions on running Back to Basics on a daily basis.

We suggest that you keep your Sample Data Disk for future use to:

- Enter transactions that are new to you to see how they will affect your General Ledger accounts.
- Train new employees.

Consumer Electronics
ox 4629
ta, GA 30302
RCA Distributing
1500 Marietta Blvd
Telephone 404/355-29
RCA
ZENITH
Wholesal
4400-H BANK
Wholesale Industrial Electronic
4400-H BANKERS CIRCLE N.E. • ATLANTA
RCA
SCOTT TV & STEREO
2964 PEACHTREE RD
ATLANTA GA 30305
RCA Electronics
Seventy-nine dollars
11-15 1984
$79.85
Jim Scott
Paste the Order
SCOTT TV & STEREO
64 PEACHTREE RD
LANTA, GA 30305
Zenith
Ninety-three do
RCA
17CT3
9KX6
21LR8

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The Reference Guide contains detailed instructions and information on the Back to Basics Command Menu and File selections. It also includes instructions for running Month End and Year End.

The File Menu

- The New command opens a new, empty file.
- The Open command gets a file from the disk and displays it on the screen.
- The Close command closes a file.
- The Print Checks command allows you to print checks at any time, once the check information has been entered in the Cash Disbursements Journal.
- The Complete Startup command gives the system the capabilities to access and maintain all journals.
- The Post General Ledger command is the first of two commands that run Month End or Year End. (Notice that the Complete Startup command changes to Post General Ledger after you process Complete Startup. The two commands don't appear on the File menu at the same time.) The Post General Ledger command starts the Month End or Year End process.
- The Quit command lets you leave and close a file at any time. You have the choice of opening another data file, or returning to the Finder.

The Edit Menu

- The Cut command deletes a field.
- The Copy command copies one field to another field.
- The Paste command inserts the contents of one field into another field.
- The Add command adds information to a file.
- The Delete command lets you delete information from the program.
- The Modify command allows you to edit and change information that is frequently used in the program.
- The Void Transaction command voids entries made in the four journals—General, Cash Receipts, Cash Disbursements, and Cash Sales.
- The Setup command allows you to enter new starting balances into Back to Basics and to build or change the Cash Sales Reconciliation Sheet.

The Options Menu

The Options menu allows you to change the system configuration as needed. This menu is available at any time.

- The Company Name command allows you to make changes in the current company name or to enter a new company's name.
- The Multiple Cash Accounts command allows you to add up to two cash accounts to use with the Cash Receipts and Cash Disbursements Journal.

- The Departmentalize Income command lets you choose whether or not to departmentalize your income statement. You cannot change the data already on the system, but what you enter from this point on will be changed.

- The Process Auto Journal command lets you process the automatic journal entries just before you run Month End or Year End.

- The Classify Income Statement command classifies the income, cost of sales, and expense accounts and specifies how subtotals print on the income statement.

- The Classify Balance Sheet command classifies the assets, liabilities and equity accounts and specifies how subtotals print on the balance sheet.

- The Posting Configuration command lets you select the reports you want to print during the Month End and Year End process for your business.

- The Advanced Operation command lets you choose whether to have a second chance to edit a screen before recording the screen.

Reference Menu

The Chart of Accounts command allows you to display the current Chart of Accounts to obtain a General Ledger account number or name.

The Chart of Accounts

The Chart of Accounts lets you tailor your financial records to suit the needs of your business. You can add, delete or modify, accounts during startup. After you run the Complete Startup procedure, you'll be able to enter amounts only through journal entries.

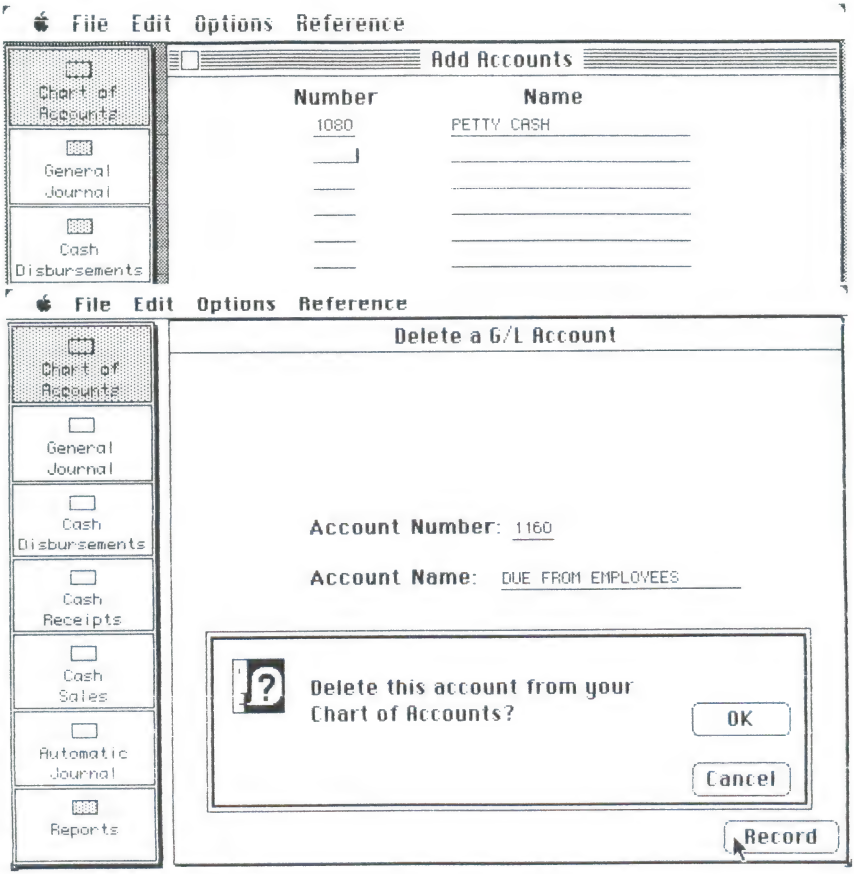
To find an account number and name, select Chart of Accounts from the Reference menu to view the Chart of Accounts. Position the pointer on an account and click; the account will be highlighted. Then click the OK button, and the account number you highlighted will appear in the account number field.

Adding Accounts

To add an account to the Chart of Accounts, select the Chart of Accounts file, then choose Add from the Edit menu.

Number: Enter a four-digit account number, then press Return.

Name: Enter the account name. Click the Record button to enter the information.



Deleting Accounts

To delete an account on the Chart of Accounts, select the Chart of Accounts file and choose Delete from the Edit menu.

Number: Enter the account number to be deleted. When you press Return, the account name displays. Verify that this is the account you want to delete.

Back to Basics will delete the account when you close the current period if the following conditions exist:

- The account has a zero balance and no transactions have been made since the last year-end close.
- The account is not used with the Cash Sales Journal or an automatic journal entry.
- The account is not a Multiple Cash account or Retained Earnings account.

Modifying Account Names

To change the name of an account that is on the Chart of Accounts, select the Chart of Accounts file, then choose Modify from the Edit menu.

Number: Enter the number of the account to be changed. The system displays the current account name for verification.

Name: Enter the new account name, and press Return to enter the information.

Entering Account Balances

To enter balances during startup, select the Chart of Accounts file and choose Setup from the Edit menu. The account numbers and names display in numeric order.

Note: The contra assets are shown with a debit default balance instead of a credit balance. Change the **D** to **C** to record all contra asset accounts. (For example, Accumulated Depreciation is a contra asset account. For additional information, refer to the "Accounting Principles" section.)

D/C: Enter **D** for debit or **C** for credit depending on the account balance.

Amount: Enter the account balance. Type the numbers and decimal if required. Do not enter commas or the characters + and −.

Ledger Out of Balance: Each time you enter an amount, the total for this field changes. *This total must be zero before you complete startup.* Back to Basics contains a safeguard, so you cannot complete startup procedures until the debits and credits are equal.

Use the Scroll Bar to go from screen to screen during setup to verify information.

Click Record when you have entered all account balances. Back to Basics will ask you to be sure all balances are correct. If you enter an incorrect balance, change it by using the mouse to go back to that balance, then enter the correct amount. After running the Complete Startup procedure, make corrections through journal entries.

Departmentalizing Income and Expense Accounts

The configuration on an income statement can be changed at any time through the Options menu. To change to a departmentalized income statement, select Departmentalize Income from the Options menu and click the square. Next, set up an account in the Chart of Accounts for *each* revenue and expense account that you are departmentalizing. For example, Commission Expense, 5500, would be Department 0; 5501 would be Department 1. Back to Basics prints an income statement for each department that includes all revenues and expenses for that department. In addition, Back to Basics prints a consolidated income statement.

Recording Journal Entries

You can make a variety of entries in the General Journal. These entries include miscellaneous entries that cannot be made in a special journal. For example, if you buy a delivery truck and issue a note payable, enter the transaction in the General Journal. There are no defaults on the journal entry screen for debit and credit. You must specify which account you want to debit and which to credit. You can distribute an entry to 20 different accounts.

To enter a journal entry, select the General Journal file and choose Add from the Edit menu or double-click the General Journal file.

Enter the following information:

Entry #: Back to Basics generates the journal entry number. You cannot change it.

Date: The program date you entered displays. You can change the day but not the month or year.

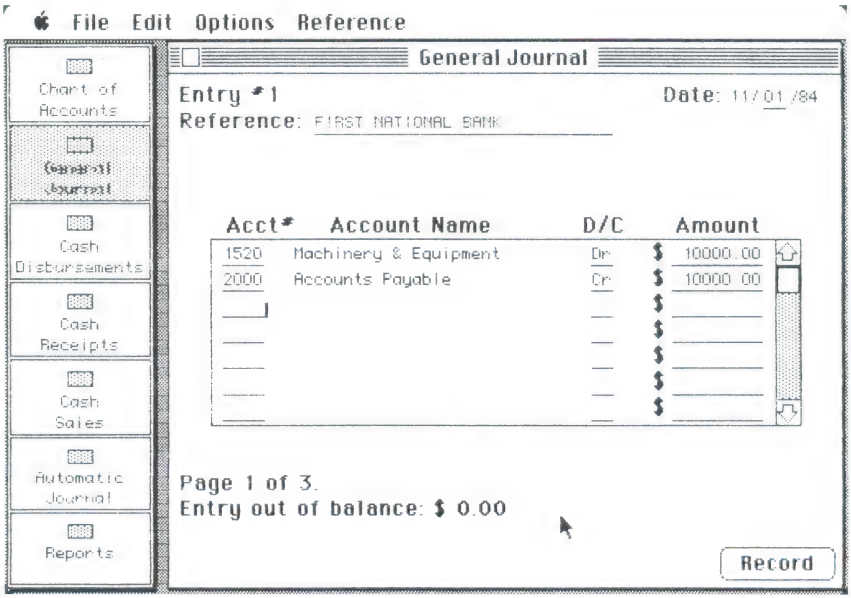
Acct. #: Enter the account number(s) you want to debit or credit.

Name: The screen will display the name. Verify that it's correct.

D/C: Choose **D** to debit or **C** to credit an account.

Amount: Enter the amount, leaving out commas, dollar signs, and plus or minus signs. Use a decimal only if you're entering an amount with cents.

Entry Out of Balance: Each time you enter an amount, this field displays the difference between the debits and credits. The amount must be zero before you can record the entry. Click the Record button to accept each entry.



Entering Cash Disbursements

You can record checks to three different cash accounts. You can enter handwritten or computer checks. If you use computer checks, you must print the checks before posting General Ledger. If you record computer checks but don't print them, the Print Checks option on the File menu is bold. At all other times Print Checks is dimmed. Until checks are printed, the transaction will not appear in any reports or journals. You can distribute a check to a maximum of 20 accounts.

To enter a cash disbursement, click the Cash Disbursements file and select Add from the Edit menu, or double-click the Cash Disbursements file.

Enter the following information:

Date: The program date displays. You can change the day but not the month or the year.

Computer Check (Y/N)? Enter **N** to record manually written checks. Enter **Y** to record checks to print on the computer.

Check Number: Back to Basics automatically numbers checks after you enter the first check number. However, you can change the check number at this time. Do not enter a number for computer printed checks on this screen. This number is entered when the checks are selected to print.

Check Amt: Enter any amount up to $999,999.99. Enter **0** in this field to record a void check.

Pay to: Enter the name of the payee. If you entered 0 for Amount, the Pay To field shows as Void.

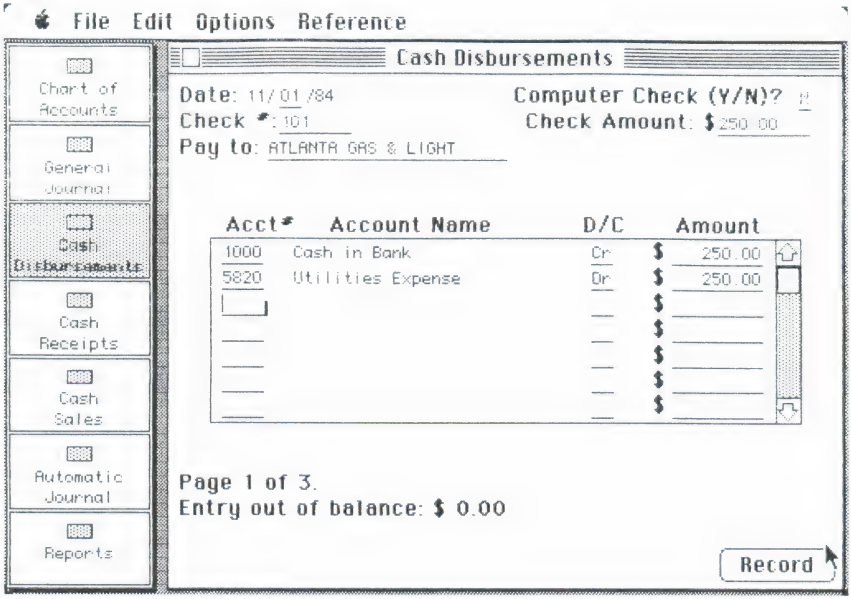
Acct. #: Your primary cash account will display on the first line. If you are using multiple cash accounts, you can change this account number. The program will credit your cash account for the full amount of the check. Complete the entry by entering the account number(s) to which Back to Basics will distribute the check amount.

Name: Back to Basics displays the account name to verify you've entered the correct account number.

D/C: Choose **D** for debit or **C** for credit to each account.

Amount: Enter the amount, leaving out commas, dollar signs, and plus or minus signs. Use a decimal for amounts with cents. You can enter whole dollar amounts without a decimal. Click Record to enter the information.

To print checks, select the File menu and choose Print Checks. Follow the prompts for the alignment mask and actual printing of the checks.



Recording Cash Receipts

You can record cash receipts to three different cash accounts. You can distribute receipts to a maximum of 20 accounts. Use the Reference column to develop a good audit trail and to help manage Accounts Receivable. For example, when you want to apply the receipt to accounts receivable, enter the customer's name and invoice number, if available.

Entry #: Back to Basics generates the entry number, which you cannot change.

Date: The program date displays. The day of the month can be changed.

Reference: Enter the source of receipt.

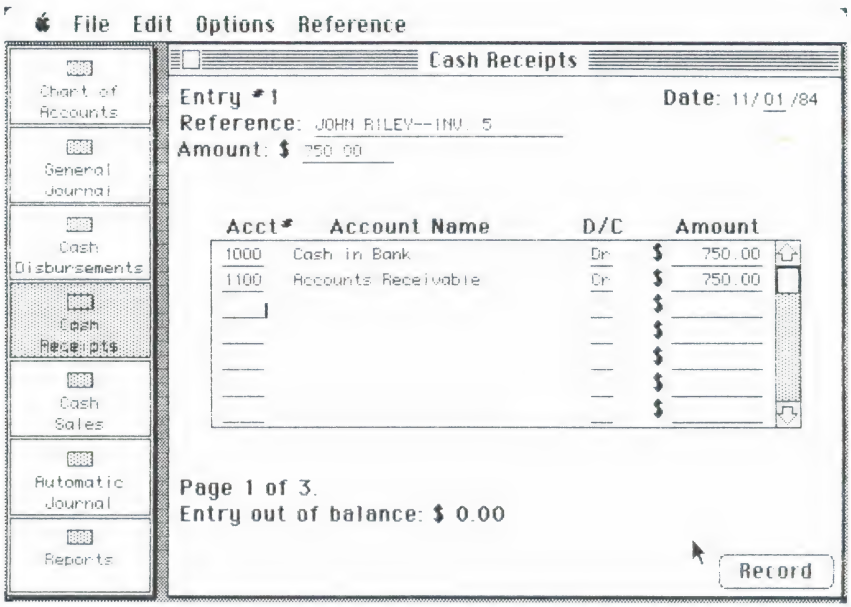
Amount: Enter any amount up to $999,999.99.

Acct #: Your primary cash account number displays on the first line. If you are using multiple cash accounts, you can change the account number to another multiple cash account. The program debits your Cash Account for the correct amount of the receipt. Enter the account number(s) to which you want to distribute the receipt.

Name: Back to Basics displays the account name to verify that you have entered the correct account number.

D/C: Choose **D** to debit or **C** to credit each account.

Amount: Enter the amount of the debit or credit. Click Record to enter the information.


File Edit Options Reference
Chart of Accounts
General Journal
Cash Disbursements
Cash Receipts
Cash Sales
Automatic Journal
Reports
Cash Receipts
Entry # 1
Date: 11/01/84
Reference: JOHN RILEY--INV. 5
Amount: $ 750.00
Acct# Account Name D/C Amount
1000 Cash in Bank Dr $ 750.00
1100 Accounts Receivable Cr $ 750.00
Page 1 of 3.
Entry out of balance: $ 0.00
Record

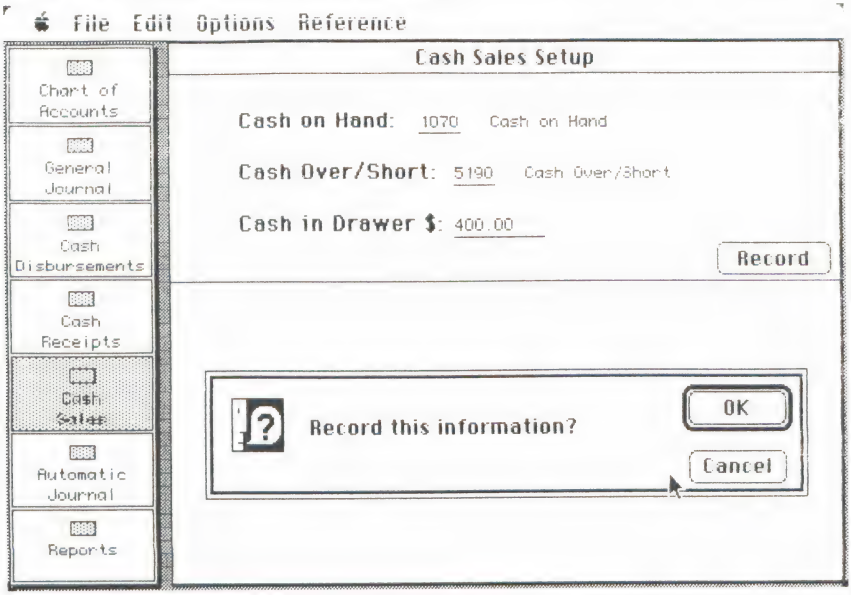
Cash Sales

Cash Sales Setup

To set up cash sales, select the Cash Sales file and choose Setup from the Edit menu. The first Cash Sales Setup screen displays. Enter the Cash on Hand and Cash Over/Short account numbers you will be using. Then enter the amount of cash you have in the cash drawer. Press Return to record the information. You will break down your cash sales in the same format that is on the cash register or in any other order you want to use.

Use the following screens to build the Reconciliation Sheet to your specifications. You can print a copy of the Reconciliation Sheet from the Journals and Reports screen. The end of this section contains instructions for printing the Reconciliation Report.

During Setup, you can make changes by selecting Modify or Delete on the Cash In or Cash Out screen and entering the line number you want to change. Back to Basics brings forward the Cash on Hand and the Cash Over/Short account numbers.

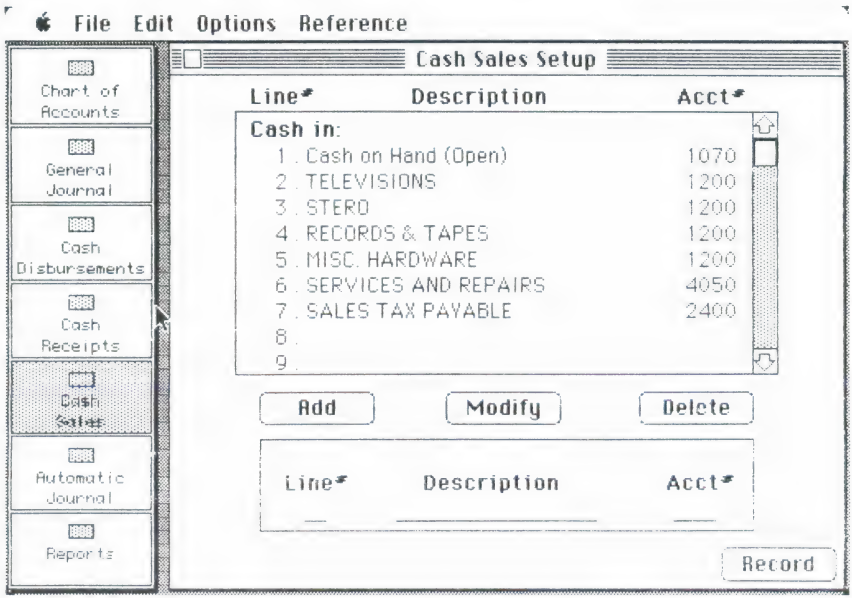


Adding Lines to Cash Sales

Select the Cash Sales file and choose Setup from the Edit menu.

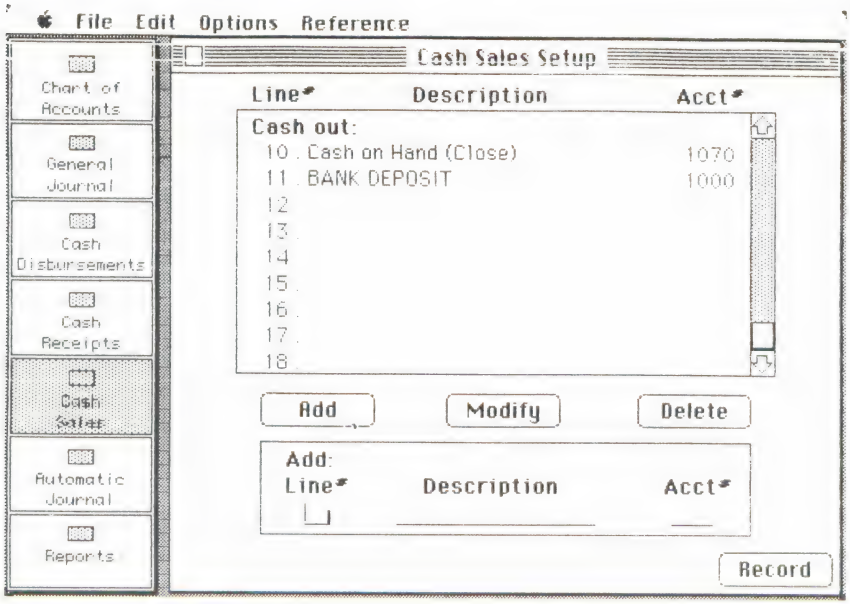
Cash In

Select the Add button and enter the line number, the description, and the account number. Entries include sales category and sales tax liability. Line 1 is the Cash on Hand (open) account and can't be changed. This is the Cash on Hand account number you entered on the previous screen. All accounts on the Cash In screen are credited. Press Return or use the mouse to continue from field to field. (You can enter up to eight lines.) Press Return to enter the information.



Cash Out

The first line of the Cash Out field, Cash on Hand (close), represents the amount of cash that you'll keep in the cash drawer each day. This account number can't be changed. You can enter up to eight lines of description. Account numbers you enter must be on file in the Chart of Accounts. Entries include deposits to your primary Cash accounts. All accounts on the Cash Out screen are debited. Press Return to enter the information.



Deleting a Line

To delete a line from Cash Sales, select the Cash Sales file and choose Setup from the Edit menu. Click the Delete button and enter the line number to be deleted. Verify that this is the line you want to delete.

Note: You can delete a line only at the beginning of a period. After you've entered transactions, you can't delete lines.

Modifying Cash Sales Setup

To change a line on the Cash Sales screen, select the Cash Sales file and choose Setup from the Edit menu. Click the Modify button, enter the line number you want to change, and make the necessary corrections. Press Return to enter the information.

Entering Cash Sales Transactions

Double-click the Cash Sales file or select the Cash Sales file and choose Add from the Edit menu. The Cash Sales entry screen displays.

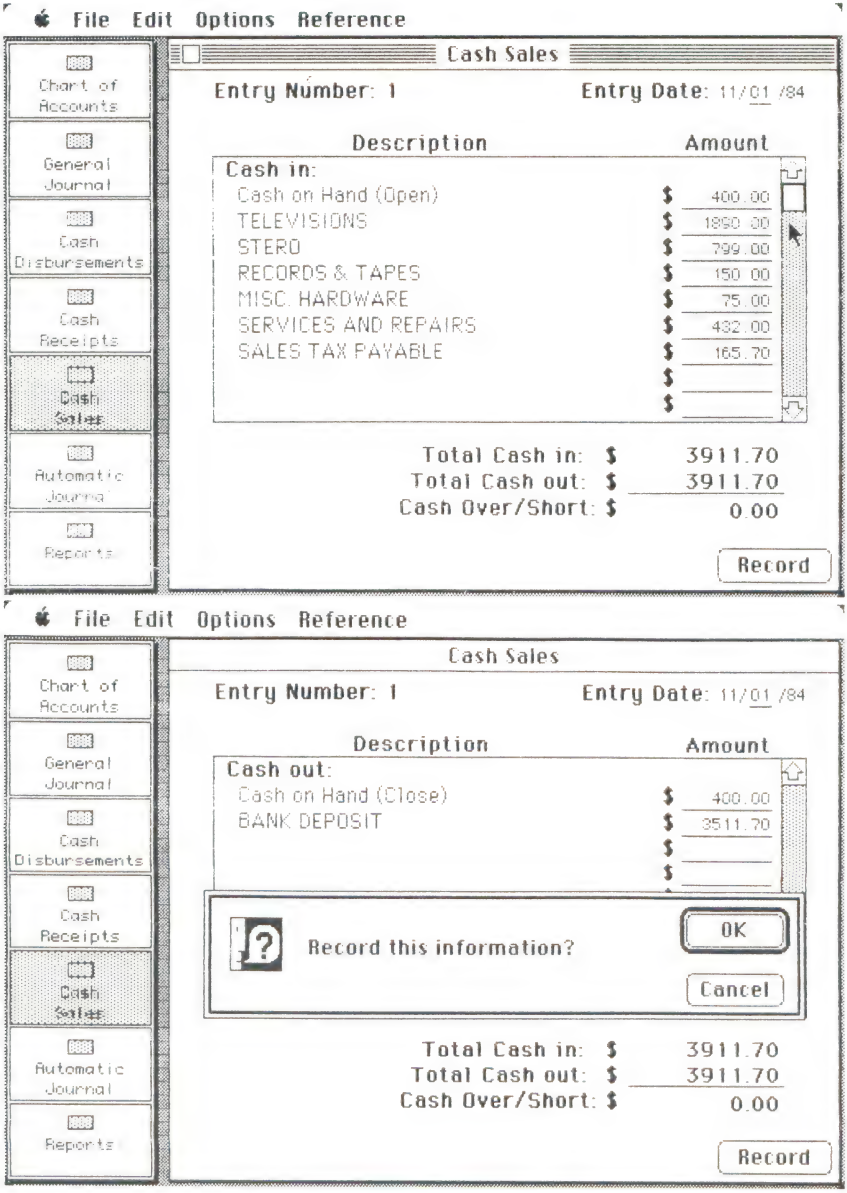
Entry Number: Back to Basics generates the entry number, which cannot be changed.

Entry Date: The program date displays and can be changed.

Cash In: Complete the Cash In screen by entering the amounts from your Reconciliation Sheet or cash register.

Cash Out: Enter the amounts for Cash Out from the Reconciliation Sheet or cash register.

Verify the information by scrolling from Cash In to Cash Out using the scroll bar. To change an amount in a previous field, position the pointer on that field and click. Back to Basics calculates total cash over/short and posts all account totals to the General Ledger. Entries are numbered in sequence by Back to Basics. Press Return at the last Cash Out field or click the Record button to enter the information.


File Edit Options Reference
Chart of Accounts
General Journal
Cash Disbursements
Cash Receipts
Cash Sales
Automatic Journal
Reports
Cash Sales
Entry Number: 1
Entry Date: 11/01 /84
Description
Amount
Cash in:
Cash on Hand (Open) $ 400.00
TELEVISIONS $ 1890.00
STEREO $ 799.00
RECORDS & TAPES $ 150.00
MISC. HARDWARE $ 75.00
SERVICES AND REPAIRS $ 432.00
SALES TAX PAYABLE $ 165.70
Total Cash in: $ 3911.70
Total Cash out: $ 3911.70
Cash Over/Short: $ 0.00
Record
File Edit Options Reference
Chart of Accounts
General Journal
Cash Disbursements
Cash Receipts
Cash Sales
Automatic Journal
Reports
Cash Sales
Entry Number: 1
Entry Date: 11/01 /84
Description
Amount
Cash out:
Cash on Hand (Close) $ 400.00
BANK DEPOSIT $ 3511.70
Record this information?
OK
Cancel
Total Cash in: $ 3911.70
Total Cash out: $ 3911.70
Cash Over/Short: $ 0.00
Record

Automatic Journal Entries

You'll use the Automatic Journal file to enter transactions that rarely change from month to month. To use the Automatic Journal file, the accounts debited and credited must be the same each month and must be for the same amount. An entry can have only one debit and one credit account. After the entries are set up in the Automatic Journal table, enter them on the books by selecting Process Auto Journal from the Options menu. These entries can be changed at any time. We recommend that you review the entries each month before posting to check their accuracy.

Examples of this type of entry are depreciation expense (straight line only) and expensing of a prepaid item that has previously been recorded as an asset. You can add, modify, or delete automatic journal entries. If you delete an entry from the list, the program will use the reference number again for a new entry.

Adding an Automatic Journal Entry

To add an automatic journal entry, select the Automatic Journal file, then choose Add from the Edit menu.

Reference Number: Back to Basics generates the reference number, which cannot be changed.

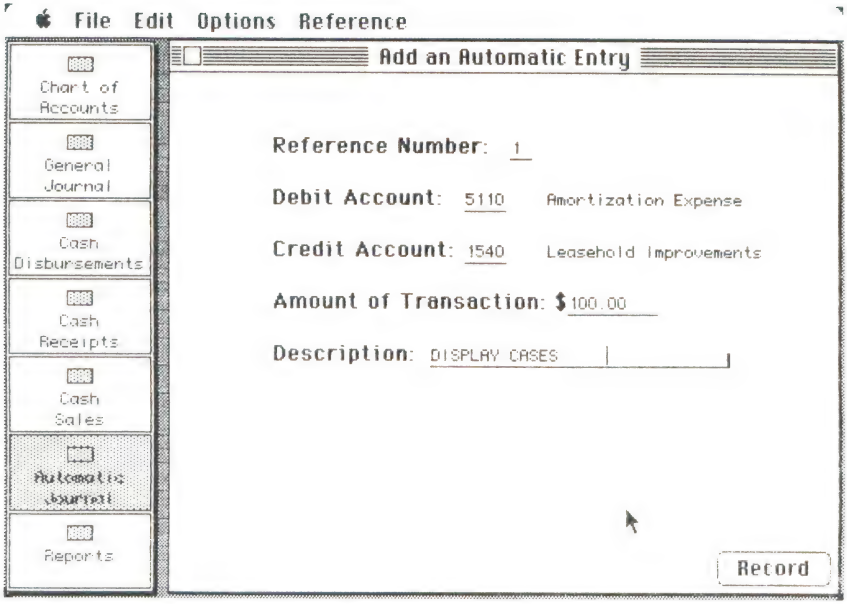
Debit Account: Enter the account number to debit.

Credit Account: Enter the account number to credit.

Amount of Transaction: Enter the amount.

Description: Enter a brief description of the transaction.

Click Record to enter the information.



Deleting an Automatic Journal Entry

To delete an automatic journal entry, select the Automatic Journal file. Choose Delete from the Edit menu, and enter the Reference number. Back to Basics displays the existing information about the entry. After verifying that this is the correct entry to delete, click the OK button.

Modifying an Automatic Journal Entry

To change an automatic journal entry, select the Automatic Journal file, then choose Modify from the Edit menu.

Reference Number: Enter the reference number. Back to Basics displays the existing information. Make the necessary corrections.

Debit Account: Make the changes.

Credit Account: Make the changes.

Amount of Transaction: Make the changes.

Description: Make the changes.

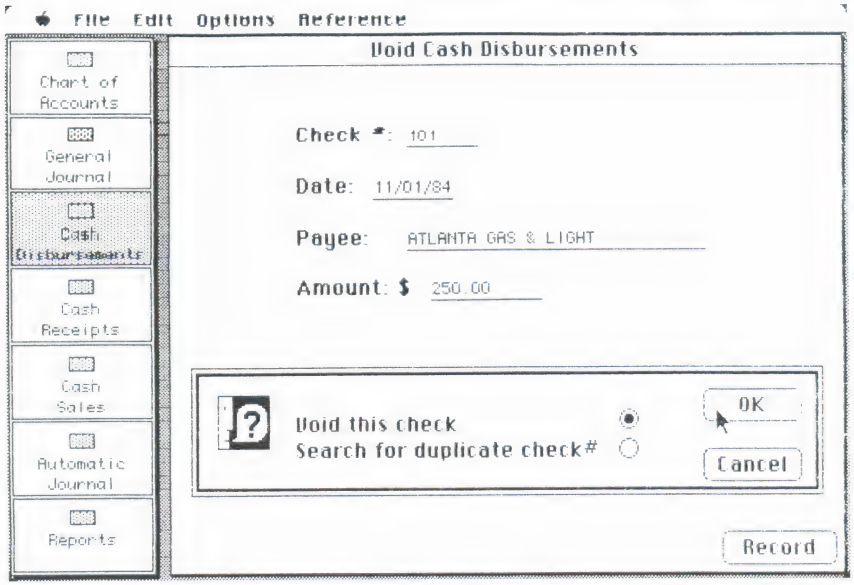
Voiding Transactions

At times you will need to void a transaction. The same basic steps apply to voiding cash disbursements, cash receipts, cash sales, and journal entries. After you enter the transactions, the voided transaction will print after the original transaction in the general ledger. When you void a transaction, Back to Basics automatically creates a reversing entry.

Voiding Cash Disbursements

To void a Cash Disbursement, select the Cash Disbursements file, then choose Void from the Edit menu. The Void Cash Disbursements screen displays.

Check #: Enter the check number of the entry to void. The screen displays the date, payee, and amount. You should verify that this is the transaction you want to void. If it is, click the OK button.



Voiding Cash Receipts

To void a Cash Receipts entry, select the Cash Receipts file and choose Void from the Edit menu. The Void Cash Receipts screen displays.

Entry Number: Enter the entry number. The screen displays the date, description, and amount. Verify that this is the transaction you want to void. If the entry number is incorrect, type the correct number. Click the OK button.

Voiding General Journal Entries

To void a general journal entry, select the General Journal file and choose Void from the Edit menu. The Void General Journal Entries screen displays.

Entry Number: Enter the General Journal entry number to be voided. Back to Basics displays the date and description. After verifying that this is the transaction you want to void, click the OK button.

Voiding Cash Sales

To void a cash sales entry, select the Cash Sales file and choose Void from the Edit Menu. The Void Cash Sales screen displays. Use caution when voiding a Cash Sales entry; other accounts may be affected.

Entry Number: Enter the Cash Sales entry number you want to void. The screen displays the date, total cash in, total cash out, and cash over/short for you to verify. If this is the transaction you want to void, click the OK button.

Month End

At the end of each month you will want to examine your accounting records to make sure that all transactions are recorded, and to make the necessary adjusting entries for the month. It is important that income and expenses be shown in the period they occur. In Back to Basics, Month End closes your books and prints the monthly reports selected in the Posting Configuration option.

Be sure to process the automatic journal entries before running Month End. When you run Month End, the month's income and expense items roll over to the year-to-date total. Back to Basics calculates net income or net loss and posts the net income or loss to Profit and Loss. You'll then begin the next month with zero balances in the current month column for all income and expense accounts. Back to Basics also advances the date to the first day of the next month.

The following are suggestions for preparing to run Month End:

1. Verify that all entries have been made for the month.

2. Make any adjusting entries that are needed. For example, make sure Salary Expense shows all of the current month's expenses.

3. Process automatic journal entries.

To run Month End, select Post General Ledger from the File menu. A prompt appears asking if you want to run Month End or Year End. Choose Month End. As part of Month End, Back to Basics calculates the net profit or loss and rolls it into the Profit/Loss account. Back to Basics automatically prints reports as part of the month-end procedure.

Year End

At the end of your fiscal year, close your books by running Year End. Be sure to process the automatic journal entries before running Year End. When you choose Year End, Back to Basics performs the regular Month End processing. This includes printing the reports you selected during Posting Configuration. Year End also closes out the income and expense accounts to the Retained Earnings account or to another Equity account you specify. The income and expense accounts will reset to zero to begin processing for the next fiscal year.

The following are suggestions for preparing to run Year End:

1. Print a Trial Balance.

2. Review the year-to-date balances in all income and expense accounts. Make sure you've entered all transactions.

3. Review all prepaid expense accounts. Do you need to make any adjusting entries? If so, make them.

4. Review the Automatic Journal entries list. If you need to change any of them, make the changes.

5. Process the automatic journal entries.

6. File Year End reports separately from Month End as you will use them in preparing your annual tax return.

To run Year End, select Post General Ledger from the File menu. The program asks if you want to process Month End or Year End. Select Year End. Back to Basics automatically prints reports as part of the year-end procedure.

Introduction to Reports

Back to Basics gives you the option of viewing or printing the following reports:

- Chart of Accounts
- Trial Balance
- Detailed General Ledger
- General Journal
- Cash Disbursements Journal
- Cash Receipts Journal
- Cash Sales Journal
- Income Statement
- Balance Sheet
- Account Activity Report
- Check Register
- Listing of Automatic Journal entries

Viewing and Printing Reports

This section tells you how to print or view each of the reports, describes each report, and tells you how to use each one.

To view a report:

1. Open the Reports File Drawer.
2. Select the report to be viewed.
3. Position the pointer on View.
4. Click the View button.

To print a report:

1. Open the Reports File Drawer.
2. Select the report to be printed.
3. Position the pointer on Print.
4. Click the Print button.

To print a report from a previous period:

From the Finder, open the Back to Basics Data File for the appropriate period.

To stop printing:

Press the Command Key and period (.) at the same time.

Chart of Accounts

The Chart of Accounts lists all general ledger account names and account numbers in numeric order. The first digit of the account number represents a major division in the ledger. The report is divided into five major divisions—Assets, Liabilities, Equity, Revenue, and Expense. The first digit of each account indicates the classification of an account. For example, in the Chart of Accounts used in Back to Basics, an account number that starts with 1 is an Asset account.

Use the Chart of Accounts:

- To identify and locate accounts.
- To help allocate expenses.

HELP Feature:

Select Chart of Accounts from the Reference menu to view the Chart of Accounts from anywhere in Back to Basics. The HELP file can also be accessed by holding down the Command Key and typing **A**.

CHART OF ACCOUNTS
Scott's TV & Stereo
11/30/84

ACCOUNT RANGE	ACCOUNT NUMBER	ACCOUNT NAME
ASSETS		
	1000	Cash in Bank
	1020	Cash - Payroll Account
	1070	Cash on Hand
	1100	Accounts Receivable
	1150	Interest Receivable
	1160	Due from Employees
LIABILITIES		
	2000	Accounts Payable
	2100	Notes Payable
	2150	Layaway Deposits
	2200	FICA Payable
	2210	Federal W/H Payable
	2220	State W/H Payable
	2300	Salaries & Wages Payable
	2400	Sales Tax Payable
EQUITY		
	3000	Paid in Capital
	3990	Retained Earnings
REVENUE		
Sales Revenue		
	4000	Sales - TV & Stereo
	4010	Sales - Records & Tapes
	4020	Sales - Misc. Hardware
	4030	Sales - Svc. & Repair
	4100	Sales Discounts
	4110	Returns and Allowances
	5630	Postage Expense
	5640	Rental Equipment Expense
	5670	Rent Expense
	5700	Repairs & Maintenance Exp.
	5730	Tax Expense - Payroll
	5760	Tax Expense - Other
	5790	Telephone Expense

Trial Balance

The Trial Balance lists a summary of all the account titles and balances used in preparing the balance sheet and income statement. The Trial Balance prints in the order the accounts appear on the Chart of Accounts. The report prints as of the current date and shows the balance at the beginning of the period, the current month's activities, and the current balance in each account. The total of this report should always be zero; if not, an error has occurred and must be corrected before entering additional data. The Trial Balance gives an up-to-date balance of all General Ledger accounts.

Use the Trial Balance:

- To verify that debits and credits are equal.
- To access the current balances in all General Ledger accounts.
- To compare the current month's activity with a previous month.

TRIAL BALANCE
Scott's TV & Stereo
AS OF 11/30/84

ACCT NUMBER	ACCOUNT NAME	BALANCE FORWARD	MONTHLY ACTIVITY	CURRENT BALANCE
1000	Cash in Bank	0.00	3063.19	3063.19
1020	Cash - Payroll Account	0.00	0.00	0.00
1070	Cash on Hand	0.00	100.00	100.00
1100	Accounts Receivable	0.00	1740.91	1740.91
1150	Interest Receivable	0.00	0.00	0.00
1160	Due from Employees	0.00	0.00	0.00
1170	Allowance for Bad Debts	0.00	0.00	0.00
1200	Inv - TV & Stereo	0.00	1891.07	1891.07
1210	Inv - Records & Tapes	0.00	1105.53	1105.53
1220	Inv - Misc. Hardware	0.00	768.40	768.40
1300	Prepaid Insurance	0.00	1100.00	1100.00
1320	Prepaid Interest	0.00	0.00	0.00
1340	Prepaid Taxes & Licenses	0.00	0.00	0.00
1360	Prepaid Expenses - Misc.	0.00	0.00	0.00
1500	Furniture & Fixtures	0.00	3450.00	3450.00
1520	Machinery & Equipment	0.00	9376.36	9376.36
1540	Leasehold Improvements	0.00	1752.00	1752.00
1580	Vehicle	0.00	7280.00	7280.00
1600	Accumulated Depreciation	0.00	0.00	0.00
4030	Sales - Svc. & Repair	0.00	-2737.30	-2737.30
4100	Sales Discounts	0.00	0.00	0.00
4110	Returns and Allowances	0.00	27.82	27.82
4200	Finance Charge Revenue	0.00	0.00	0.00
4250	Interest Revenue	0.00	0.00	0.00
4310	Credit Card Discount	0.00	0.00	0.00
5700	Repairs & Maintenance Exp.	0.00	0.00	0.00
5730	Tax Expense - Payroll	0.00	427.75	427.75
5760	Tax Expense - Property	0.00	0.00	0.00
5770	Tax Expense - Other	0.00	0.00	0.00
5790	Telephone Expense	0.00	273.87	273.87
5800	Travel Expense	0.00	0.00	0.00
5820	Utilities Expense	0.00	225.00	225.00
	BALANCES	0.00	0.00	0.00

Detailed General Ledger

The Detailed General Ledger lists each balance sheet and income statement account in the order the account appears on the Chart of Accounts. Back to Basics posts the details of each transaction to the account in the order you entered them. Each account shows a beginning and ending balance.

Use the Detailed General Ledger:

- To develop an audit trail.
- To give detailed records of specific accounts.
- To give a complete financial history of all transactions.

DETAILED GENERAL LEDGER
Scott's TV & Stereo
PERIOD: 11/01/84 TO 11/30/84

ACCT. NUM.	ACCOUNT NAME	BALANCE FORWARD	CURRENT MONTH	
1000	Cash in Bank	0.00		
JE#1	Startup		10000.00	
JE#2	Legal fees		-550.00	
JE#3	Bank note		10000.00	
JE#8	Purchase service van		-1456.00	
TOTAL	CASH DISBURSEMENTS		-29588.21	
TOTAL	CASH RECEIPTS		2035.20	
CASH SALES	Bank Deposit		23464.44	
TOTAL	PAYMENTS JOURNAL		500.00	
TOTAL	A/P DISBURSEMENTS		-11342.24	
				3063.19
1020	Checking - Payroll	0.00		
CK#5	Payroll Account		993.02	
CK#6	Payroll Account		744.77	
CK#7	Payroll Account		744.77	
CK#8	Payroll Account		744.77	
TOTAL	CASH DISBURSEMENTS		-3227.36	
				-0.03
1070	Cash on Hand	0.00		
CK#4	Cash		100.00	
				100.00
1300	Prepaid Insurance	0.00		
JE#5	Insurance		-100.00	
CK#9	Southern Insurance Agcy.		1200.00	
				1100.00
1500	Furniture & Fixtures	0.00		
CK#7	Stone Mtn. Office Equip.		3450.00	
				3450.00

General Journal

The General Journal lists journal entries made for a specific time period. The complete journal entries print in numeric order. Data for each journal entry includes the journal entry number, date, general ledger accounts number, account names, amounts debited and credited, and a description of the transaction, if a description was entered on the entry screen. A total for each entry prints on the report.

Use the General Journal:

- To develop an audit trail.
- To obtain the history of all journal entries entered for a specific time period.

GENERAL JOURNAL
Scott's TV & Stereo
PERIOD: 11/01/84 TO 11/30/84

JE #	DATE	ACCT. NUM.	ACCOUNT NAME	DEBIT	CREDIT
1	11/01/84	1000	Cash in Bank	10000.00	
		3000	Paid in Capital		10000.00
	DESC: Startup				
			ENTRY TOTAL:	10000.00	10000.00
2	11/01/84	5520	Legal & Accounting	550.00	
		1000	Cash in Bank		550.00
	DESC: Legal fees				
			ENTRY TOTAL:	550.00	550.00
3	11/01/84	1000	Cash in Bank	10000.00	
		2100	Notes Payable		10000.00
	DESC: Bank note				
			ENTRY TOTAL:	10000.00	10000.00
4	11/30/84	5730	Taxes - Payroll	427.75	
		2200	FICA Payable		427.75
	DESC: Payroll Expense - November				
			ENTRY TOTAL:	427.75	427.75

Cash Disbursements Journal

The Cash Disbursements Journal lists all disbursements made for the period, whether the checks are prepared manually or printed by computer. Data on the report includes the check number, date, payee, check amount, account number and amount. Total disbursements for the period print at the end of the report. All disbursements are summarized in this journal, with the exception of payments made through the General Journal.

Use the Cash Disbursements Journal:

- To help reconcile the Check Register.
- To monitor cash flow.
- To obtain a daily cash total of disbursements.

CASH DISBURSEMENTS JOURNAL
Scott's TV & Stereo
PERIOD: 11/01/84 TO 11/30/84

CHECK NUMBER	DATE	PAYEE	CHECK AMOUNT	ACCT. NUM.	AMOUNT
BANK ACCOUNT: 1000 - Cash in Bank					
2	11/01/84	State of Georgia	75.00	5550	75.00
3	11/01/84	Ga. Power Co.	225.00	5820	225.00
4	11/01/84	Southern Bell	150.00	5790	150.00
5	11/01/84	Tucker Realty	1000.00	1820	1000.00
17	11/16/84	JJ's Body Shop	153.50	5130	153.50
18	11/07/84	Southern Elec. Supply	1154.00	1220	1154.00
19	11/05/84	Cash	45.00	5610	30.20
				5630	14.80
	TOTAL DISBURSEMENTS:		29588.21		

Cash Receipts Journal

The Cash Receipts Journal can be printed or displayed on the screen for the current period. Data on the report includes the receipt number, date of entry, reference (where cash came from), deposit amount, account number, and account credited.

Use the Cash Receipts Journal:

- To show total cash received for the period, with the exception of cash sales.
- To make cash forecast and cash flow projections.
- To help in reconciling the bank statement.

CASH RECEIPTS JOURNAL
Scott's TV & Stereo
PERIOD: 11/01/84 TO 11/30/84

CR #	DATE	REFERENCE	DEPOSIT AMOUNT	ACCT. NUM.	AMOUNT
		BANK ACCOUNT: 1000 - Cash in Bank			
1	11/05/84	Service calls	95.50	4030	-95.50
2	11/06/84	Service calls	103.90	4030	-103.90
3	11/07/84	Service calls	65.10	4030	-65.10
4	11/08/84	Service calls	128.50	4030	-128.50
18	11/28/84	Service calls	63.50	4030	-63.50
19	11/29/84	Service calls	138.50	4030	-138.50
20	11/30/84	Service calls	120.00	4030	-120.00
		TOTAL RECEIPTS:	2035.20		

Cash Sales Journal

The Cash Sales Journal can be printed or displayed on the screen for the current period. The journal can be used to categorize and post cash sales. This data has been summarized on an input form for the day's activities (cash sales). Data on the report includes the entry date, source of sale, total cash-in, total cash-out, cash over/short for period, amount deposited each day, and total cash deposit for the period.

Use the Cash Sales Journal:

- To keep track of cash entering the business.
- To reconcile the cash short and over account each day.
- To control revenue centers.
- To control inventory based on revenue centers.

CASH SALES JOURNAL
Scott's TV & Stereo
PERIOD: 11/01/84 TO 11/30/84

ENTRY #	1	2	3	4
DATE	11/01/84	11/02/84	11/03/84	11/05/84
CASH ON HAND (OPEN)	100.00	100.00	100.00	100.00
Television	579.79	489.85	1029.35	529.85
Stereo	0.00	419.84	239.94	79.95
Records & Tapes	148.38	331.22	452.54	229.09
Misc. Hardware	12.35	35.48	9.80	0.00
Service & Repair	0.00	0.00	0.00	25.50
Sales Tax	29.12	49.63	68.87	33.55
TOTAL CASH IN:	869.64	1426.02	1900.50	997.94
CASH ON HAND (CLOSE)	100.00	100.00	100.00	100.00
Bank Deposit	769.64	1326.02	1800.45	897.94
TOTAL CASH OUT:	869.64	1426.02	1900.45	997.94

CASH SALES JOURNAL - SUMMARY
Scott's TV & Stereo
PERIOD: 11/01/84 TO 11/30/84

ACCT #	ACCOUNT NAME	DESCRIPTION	DEBIT	CREDIT
4000	Sales - TV & Stereo	Television		9284.89
4000	Sales - TV & Stereo	Stereo		6917.19
4010	Sales - Records & Tapes	Records & Tapes		5066.32
4020	Sales - Misc. Hardware	Misc. Hardware		642.67
4030	Sales - Svc. & Repair	Service & Repairs		702.10
2400	Sales Tax Payable	Sales Tax		851.22
1000	Cash in Bank	Bank Deposit	23464.44	
1070	Cash on Hand	CHANGE: CASH-ON-HAND	0.00	
5190	Cash Over/Short	CASH OVER/SHORT		0.05
		TOTAL	23464.44	23464.44

Income Statement

An Income Statement contains a summary of the revenues and expenses of a business entity over a specific period of time, such as one month, a quarter or a year. The report prints according to the way you have classified the accounts in the Chart of Accounts. For example, you can departmentalize or you can classify expenses as selling and administrative. A Net Loss is shown by a minus (–) sign on the statement. You can view or print an up-to-date income statement any time.

Use the Income Statement:

- To determine profit and loss centers.
- To determine changes that need to be made to increase revenues or decrease expenses.
- To compare previous statements for growth patterns.
- To help plan a budget for the following year.
- To compare the budget and income statement to see if revisions should be made.

INCOME STATEMENT
Scott's TV & Stereo
PERIOD: 11/01/84 TO 11/30/84

ACCOUNT NAME	MONTH	YEAR TO DATE
REVENUE		
Sales Revenue		
Sales - TV & Stereo	18161.03	18161.03
Sales - Records & Tapes	5141.07	5141.07
Sales - Misc. Hardware	768.47	768.47
Sales - Svc. & Repair	2737.30	2737.30
Sales Discounts	0.00	0.00
Sales Returns/Allowances	-27.82	-27.82
TOTAL Sales Revenue	26780.05	26780.05
Other Revenue		
Finance Charge Revenue	0.00	0.00
Interest Revenue	0.00	0.00
Credit Card Discounts	0.00	0.00
Vendor Discounts Taken	124.27	124.27
Miscellaneous Revenue	22.83	22.83
TOTAL OTHER REVENUE	147.10	147.10
TOTAL REVENUE	26927.15	26927.15
COST OF SALES		
COS - TV & Stereo	9721.25	9721.25
COS - Records & Tapes	2344.95	2344.95
COS - Misc. Hardware	385.60	385.60
TOTAL COST OF SALES	12451.80	12451.80
GROSS PROFIT/LOSS	14475.35	14475.35
Tax Expense - Other	0.00	0.00
Telephone Expense	273.87	273.87
Travel Expense	0.00	0.00
Utilities Expense	225.00	225.00
TOTAL EXPENSES	13867.98	13867.98
PROFIT/LOSS	607.37	607.37

Balance Sheet

The Balance Sheet lists all Assets, Liabilities, and Equity accounts as of a specific date, usually at the end of a month or year. The Balance Sheet gives you an up-to-date financial picture of the business and can be viewed or printed at any time.

Use the Balance Sheet:

- To show the status of the business as of a specific date.
- To compare the current statement to the same time period last year or compare the current month's statement to last month's statement.
- To determine increases or decreases in assets, liabilities, and equity.
- To determine the equity of the company.
- To show the firm's ability to meet short and long term obligations.

BALANCE SHEET
Scott's TV & Stereo
AS OF 11/30/84

ACCOUNT NAME	BALANCE	SUBTOTAL	TOTAL
ASSETS			
Cash in Bank	3063.19		
Cash - Payroll Account	-0.03		
Cash on Hand	100.00		
Accounts Receivable	1740.91		
Investments	0.00		
Deposits	1000.00		
Organization Costs	0.00		
TOTAL ASSETS		32627.43	
TOTAL ASSETS			32627.43
LIABILITIES			
Accounts Payable	3596.29		
Notes Payable	15605.76		
Layaway Deposits	0.00		
FICA Payable	855.51		
Federal W/H Payable	912.60		
State W/H Payable	112.28		
Salaries & Wages Payable	0.00		
Sales Tax Payable	937.62		
TOTAL LIABILITIES		22020.06	
TOTAL LIABILITIES			22020.06
EQUITY			
Paid in Capital	10000.00		
Retained Earnings	0.00		
Profit/Loss	607.37		
TOTAL EQUITY		10607.37	
TOTAL EQUITY			10607.37
TOTAL LIABILITIES AND EQUITY			32627.43

Account Activity Report

The Account Activity Report provides details of all entries made to an individual account. The report includes source of entry, explanation, balance forward from the previous month, current month's activities, and current balance.

Use the Activity Report:

- To locate errors pertaining to a particular account.
- To print details of one account without having to print the complete General Ledger.
- To directly access information on one account.
- To verify that a particular entry has been posted.
- To help control customers' and vendors' accounts.

ACCOUNT ACTIVITY REPORT
Scott's TV & Stereo
PERIOD: 11/01/84 TO 11/30/84

ACCT. NUM.	ACCOUNT NAME	BALANCE FORWARD	CURRENT MONTH	BALANCE
1000	Cash in Bank	0.00		
JE#1	Startup		10000.00	
JE#2	Legal fees		-550.00	
JE#3	Bank note		10000.00	
JE#8	Purchase service van		-1456.00	
TOTAL	CASH DISBURSEMENTS		-29588.21	
TOTAL	CASH RECEIPTS		2035.20	
CASH SALES	Bank Deposit		23464.44	
				13905.43

Check Register

The Check Register displays or prints a list of all checks written. Data on the report includes the check number, date of entry, payee, bank account credited, and amount of each check. If the business has more than one checking account, Back to Basics prints a separate register for each account. Much of the data on the Check Register is summarized in the Cash Disbursements Journal, but is shown in a different format.

Use the Check Register:

- To reconcile the bank statement.
- To control cash flow.
- To aid in internal control of cash.

CHECK REGISTER
Scott's TV & Stereo
PERIOD: 11/01/84 TO 11/30/84

CHECK #	DATE	PAYEE	AMOUNT
		BANK ACCOUNT: 1000 - Cash in Bank	
2	11/01/84	State of Georgia	75.00
3	11/01/84	Ga. Power Co.	225.00
4	11/01/84	Southern Bell	150.00
4	11/09/84	Cash	100.00
5	11/01/84	Tucker Realty	1000.00
5	11/09/84	Payroll Account	993.02
6	11/01/84	Hurst Construction Co.	2190.00
6	11/16/84	Payroll Account	744.77
7	11/01/84	Stone Mtn. Office Equip	3450.00
12	11/30/84	Southern Bell	123.87
13	11/07/84	Altanta Constitution	1560.00
14	11/21/84	Atlanta Constitution	1560.00
15	11/28/84	Atlanta Constitution	820.00
16	11/30/84	Atlanta Natl. Bank	351.57
17	11/16/84	JJ's Body Shop	153.50
18	11/07/84	Southern Elec. Supply	1154.00
19	11/05/84	Cash	45.00
		TOTAL DISBURSEMENTS	29588.21

Cash Reconciliation Form

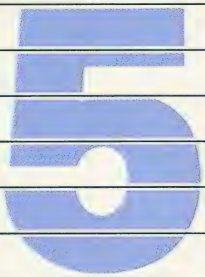
The Cash Reconciliation form is used to manually compile all cash sales information before recording it in the Cash Sales Journal. You will break down the cash sales in the same format that is on the cash register or in any other order you want to use. The form shows the amount of cash on hand, the source of all cash sales (these accounts are credits), where the cash goes (these accounts are debits), and reconciles the Cash Over/Short account. The Cash Reconciliation form can be printed at any time.

CASH RECONCILIATION
Date 11/10/84

DESCRIPTION		AMOUNT
CASH IN		
CASH ON HAND (OPEN)		$ 500.00
Television		$ 3,475.37
Stereo		$ 1,780.00
Records & Tapes		$ 400.00
Misc. Hardware		$ 300.00
Service & Repairs		$ 425.78
Sales Tax		$ 238.21
	Total Cash In:	$ 6,619.36
CASH OUT		
CASH ON HAND (CLOSE)		$ 500.00
Bank Deposit		$ 6,619.36
	Total Cash Out:	$ 6,619.40
CASH OVER/SHORT		$ .04

NAME SCOTT TV & STEREO
ADDRESS
ITEMS
FOLIO
DEBITS
Deposits - Tucker Realty
Rent Expense
Cash in Bank
Deposits - Electric Bill
Cash in Bank
Deposits - Southern Bell
Telephone Expense - Instrument
Cash in Bank
Cash in Bank - First Federal
Accounts Receivable
Sales - TV - Stereo
Sales - Taxes Payable
COS - TV - Stereo
Inv - TV - Stereo
Cash in Bank
Sales - TV - Stereo
Sales - Misc. Hdwe.
Sales - Taxes Payable
TV - Stereo
TV - Stereo
1000 00
800 00
150 00
75 00
75 00
200 00
143 19
329 95
13 24
197 50
294 50
20 96
294 50
1800 00
150 00
6CG3 / 6CE3 / 6CD3
THE FIRST NATION
OF ATLANT

Business Situations



The Business Situations section was written by Deborah H. Turner in association with Dr. Roger H. Hermanson.

DEBORAH TURNER received her Master's degree in professional accountancy and is currently a doctoral candidate at Georgia State University. Ms. Turner is a Certified Public Accountant, having worked for the accounting firm of Coopers & Lybrand prior to receiving her master's degree. She is a member of numerous professional organizations, including the American Institute of Certified Public Accountants, and has received several honors, awards, and fellowships.

DR. HERMANSON is a Certified Public Accountant as well as Research Professor of Accounting and Ernst & Whinney Alumni Professor at Georgia State University. He is editor of the Programmed Learning Aid Series and author or co-author of numerous articles for professional and scholarly journals. Dr. Hermanson has co-authored several books, including *How Accounting Works: A Guide for the Perplexed,* as well as highly successful texts in introductory accounting and auditing.

The following examples represent a generally accepted accounting approach to the given situations. In no way should these be viewed as the only solutions, since other accounting procedures may better meet your particular needs.

Service Business: Recurring Entries

Services for Cash
Services on Account
Collection of Accounts Receivable
Cash Purchase of Equipment
Purchase of Machinery on Account
Payments on Accounts Payable
Employee Payroll
Payroll Taxes
Payroll Remittances
Cash Expenses

Retail Business: Recurring Entries

Sales on Account
Sales Discounts
Sales Returns and Allowances
Sales Tax
Layaway Sales
Periodic Inventory Procedure
Perpetual Inventory Procedure
Purchase of Merchandise
Purchase Discounts
Purchase Returns and Allowances
Transportation-In
Transportation-Out

Adjusting and Reversing Entries

Prepaid Insurance
Prepaid Rent
Supplies
Depreciation
Accrued Assets: Accounts Receivable
Accrued Assets: Interest Receivable
Accrued Liabilities
Unearned Revenues
Reversing Entries

Assets: Additional Entries

Bank Reconciliation Entries
Cash Over/Short
Petty Cash Established
Petty Cash Replenished
Bad Debts: Percentage-of-Sales Method
Bad Debts: Percentage-of-Receivables Method
Accounts Receivable Write-Off
Bad Debt Recovery
Finance Charges

Credit Card Sales: Nonbank Cards
Credit Card Sales: Bank Cards
Notes Receivable
Dishonored Notes Receivable
Notes Receivable Discounted
Inventory Write-Down
Revision of Asset Life
Sale of Plant Assets
Retirement of Plant Assets
Destruction of Plant Assets
Franchises
Organization Costs
Leasehold Improvements

Liabilities: Additional Entries

Bank Loan
Notes Payable: Noninterest-Bearing

Owner's Equity Entries

Owner Investment
Owner Withdrawal
Stock Issued with Par Value
Stock Issued with Stated Value
Stock Issued with No Par Value
Cash Dividends

Data Entry Considerations

You must be consistent in the way you enter data. If you use the General Ledger module without the Accounts Receivable or Accounts Payable modules, you should keep a separate manual record for each customer or vendor account. As each entry is made in the general journal, the name of the customer or vendor should be entered in the description column so you will know which subsidiary account (customer or vendor's account) to post to and so you will always have an up-to-date record for the customer or vendor. It is extremely important that the total of all customers' accounts equal the balance of the Accounts Receivable account on the trial balance and balance sheet. The same is true for Accounts Payable. The total for Accounts Payable on the balance sheet and the trial balance should always equal the total of the individual Accounts Payable.

If you use the Accounts Receivable module, make all entries pertaining to Accounts Receivable through this module. If you fail to enter all transactions through the Accounts Receivable module, the total of your customers' accounts will not equal the total of the Accounts Receivable on the trial balance and balance sheet. Back to Basics cannot post to customers' accounts from the General Journal.

The same rules apply to Accounts Payable. If you are using the Accounts Payable module, make all entries pertaining to Accounts Payable through this module. If you do not, the total of the General Ledger control account (Accounts Payable) and the Accounts Payable module will not balance.

Note: Throughout the *Business Situations* section that follows, an asterisk (*) indicates an account that is not contained in, and therefore must be added to, the standard Chart of Accounts.

Service Business: Recurring Entries

Services for Cash

SITUATION: The business performs services for cash.

EXAMPLE: The business performs a delivery service for a customer and receives $100 cash. (This example assumes that there is no sales tax on services performed.)

ENTRY:

Dr. Cash in Bank	100	
Cr. Service Revenue		100

METHOD: This entry can be made through the Cash Receipts Journal, the Cash Sales Journal or the General Journal. The Cash Sales Journal is usually used if the business is operating with a cash register and wants to use the cash reconciliation feature of the Cash Sales Journal.

Services on Account

SITUATION: The business performs services on account (for credit).

EXAMPLE: The business performs a delivery service for a customer, Steve Bishop, who agrees to pay $500 at a later date.

ENTRY:

Dr. *Accounts Receivable—Steve Bishop	500	
Cr. Service Revenue		500

METHOD: This entry can be made through the Accounts Receivable module or the General Journal.

Collection of Accounts Receivable

SITUATION: The business makes collections on customer accounts.

EXAMPLE: The business collects a payment of $500 from a customer, Steve Bishop, who received delivery services. (See previous example.)

ENTRY:

Dr. Cash in Bank	500	
Cr. *Accounts Receivable—Steve Bishop		500

METHOD: (1) This entry can be made through the Accounts Receivable module, or (2) it can be made through the Cash Receipts Journal or the General Journal. If the Accounts Receivable module is used, sales tax will be automatically calculated if the user has specified that sales tax be computed for this sales account. If the General Journal is used, sales tax must be calculated manually.

Cash Purchase of Equipment

SITUATION: The business purchases equipment for cash.

EXAMPLE: The business purchases office equipment costing $7,000 and issues a check.

ENTRY:

Dr. Machinery & Equipment	7,000	
Cr. Cash in Bank		7,000

METHOD: This entry can be made through the Cash Disbursements Journal or the General Journal.

Note: This same format can be used to record the purchase of any long-lived asset such as a building, land or furniture and fixtures.

Purchase of Machinery on Account

SITUATION: The business makes purchases of machinery on account (for credit).

EXAMPLE: The business purchases machinery costing $12,000 on account from Premier Manufacturing Company.

ENTRY:

Dr. Machinery & Equipment	12,000	
Cr. *Accounts Payable—Premier Mfg. Co.		12,000

METHOD: The entry can be made through the Accounts Payable module or the General Journal.

Note: This same format can be used to record the purchase of any long-lived asset such as a building, land or furniture and fixtures.

Payments on Accounts Payable

SITUATION: The business makes payments on vendor accounts.

EXAMPLE: The business makes a payment of $8,000 to the vendor, Premier Manufacturing Co., who sold the machinery costing $12,000. (See previous example.)

ENTRY:

Dr. *Accounts Payable—Premier Mfg. Co.	8,000	
Cr. Cash in Bank		8,000

METHOD: (1) The entry can be made through the Accounts Payable module, (2) the Cash Disbursements Journal or (3) the General Journal. If the entry to record the original account payable was made through the Accounts Payable module, then the subsequent payment should also be made through the Accounts Payable module.

Employee Payroll

SITUATION: The business pays salaries and wages.

EXAMPLE: The gross monthly payroll of the business is $5,000. The following amounts were withheld from employees: federal income taxes, $1,000; state income taxes, $250; FICA taxes, $300. (All amounts are assumed.)

Entries to record payroll:

Dr. Salaries & Wages Expense	5,000	
Cr. *Federal Withholding Tax Payable		1,000
Cr. *State Withholding Tax Payable		250
Cr. FICA Tax Payable		300
Cr. Cash in Bank		3,450

Note: The business may prefer to use a separate cash account for payroll. In that case, the Cash in Bank account above would be replaced by the appropriate payroll cash account.

METHOD: The entry can be made through the Cash Disbursements Journal or the General Journal.

Payroll Taxes

SITUATION: The business incurs payroll taxes.

EXAMPLE: Payroll taxes on the monthly payroll (see previous example) were: FICA taxes, $300; federal unemployment taxes, $100; state unemployment taxes, $200. (All amounts are assumed. The FICA taxes are the employer's share of these taxes.)

ENTRY:

Dr. Payroll Taxes Expense	600	
Cr. FICA Tax Payable		300
Cr. *Federal Unemployment Tax Payable		100
Cr. *State Unemployment Tax Payable		200

METHOD: This entry can be made through the General Journal.

Payroll Remittances

SITUATION: The business pays employee withholdings and payroll taxes.

EXAMPLE: The withholdings from employees and the employer's payroll taxes in the two previous examples are paid to the appropriate authorities.

ENTRY:

Dr. Federal Withholding Tax Payable	1,000	
Dr. State Withholding Tax Payable	250	
Dr. FICA Tax Payable	600	
Dr. *Federal Unemployment Tax Payable	100	
Dr. *State Unemployment Tax Payable	200	
Cr. Cash—Payroll Account		2,150

Note: The FICA Taxes Payable account includes both the employees' and the employer's share of the FICA taxes.

METHOD: This entry can be made through the Cash Disbursements Journal or the General Journal.

Cash Expenses

SITUATION: The business incurs cash expenses.

EXAMPLE: The business pays the current month's rent of $500 for its retail space.

ENTRY:

Dr. Rent Expense	500	
Cr. Cash in Bank		500

METHOD: This entry can be made through the Cash Disbursements Journal or the General Journal.

Note: This approach could be used for any type of expense that is paid when incurred—that is, not recorded as an account payable first.

Retail Business: Recurring Entries

Sales on Account

SITUATION: The business makes sales on account (for credit).

EXAMPLE: The business sells merchandise to a customer, Steve Bishop, who agrees to pay $700 at a later date.

ENTRY:

Dr. *Accounts Receivable—Steve Bishop	700	
Cr. Sales Revenue		700

METHOD: This entry can be made through the Accounts Receivable module or through the General Journal.

Sales Discounts

SITUATION: The business allows sales discounts.

EXAMPLE: The business makes a sale on account of $1,000 on May 12 to Betty Finley, with terms of 2/10, net 30.

Note: These terms mean that the buyer may take a discount of 2 percent of the gross invoice price of the merchandise if payment is made within 10 days following the invoice date. Otherwise, the gross invoice price is due 30 days from the invoice date.

Entry to record sale:

Dr. *Accounts Receivable—Betty Finley	1,000	
Cr. Sales Revenue		1,000

Entry to record collection on account, less discount:

Dr. Cash in Bank	980	
Dr. Sales Discounts	20	
Cr. *Accounts Receivable—Betty Finley		1,000

Note: The Sales Discounts account is a contra revenue account to Sales and is shown as a reduction to Sales on the Income Statement.

METHOD: (1) Both entries can be made through the Accounts Receivable module, (2) the first entry can be made in the General Journal and the second entry made through the Cash Receipts Journal, or (3) both entries can be made through the General Journal module.

Sales Returns and Allowances

SITUATION: The business allows sales returns and allowances.

EXAMPLE: The business grants an allowance of $200 to a customer, Betty Finley, for merchandise damaged in shipping.

ENTRY:

Dr. Sales Returns/Allowances	200	
Cr. *Accounts Receivable—Betty Finley		200

Note: The Sales Returns and Allowances account is a contra revenue account to Sales and is shown as a reduction to Sales on the Income Statement.

METHOD: This entry can be made through the Accounts Receivable module or the General Journal. If the entry to record the original sale was made through the Accounts Receivable module, this adjustment entry *should* also be made through the Accounts Receivable module.

Sales Tax

SITUATION: The business charges sales tax on sales.

EXAMPLE: A credit sale of $500 to Betty Finley is subject to sales tax of 4 percent.

ENTRY:

Dr. *Accounts Receivable—Betty Finley	520	
Cr. Sales Revenue		500
Cr. Sales Tax Payable		20

METHOD: (1) This entry can be made through the Accounts Receivable module, or (2) it can be made through the General Journal. If the Accounts Receivable module is used, sales tax will be automatically calculated if the user has specified that sales tax be computed for this sales account. If the General Journal is used, sales tax must be calculated manually.

Layaway Sales

SITUATION: The business makes sales on a layaway basis.

EXAMPLE: A customer, Jane Smith, puts merchandise with a sales price of $100 on layaway and makes a deposit of $10. The customer will receive the merchandise when the full sales price is paid.

Entry to record deposit:

Dr. Cash in Bank	10	
Cr. *Layaway Deposits—Jane Smith		10

Entry to record payment of balance:

Dr. Cash in Bank	90	
Dr. *Layaway Deposits—Jane Smith	10	
Cr. Sales Revenue		100

EXPLANATION: When a customer makes a layaway deposit, a liability is created on the seller's books. Until the customer receives the merchandise, no sale has been made. When the customer pays the balance on a layaway item, the sale is complete. The revenue (Sales Revenue) is then recognized, and the liability (Layaway Deposits) is canceled.

METHOD: Both entries can be made through the Cash Receipts Journal or the General Journal.

Periodic Inventory Procedure

SITUATION: The business uses the periodic inventory procedure.

EXPLANATION: The periodic inventory procedure is a method of accounting for inventory where the cost of the goods sold during the period and the ending inventory balance are determined only at the end of the period. This procedure is used when the inventory consists of items with low unit values. Separate accounts are maintained for merchandise purchases, purchase discounts, purchase returns and allowances and transportation in. These accounts, along with the beginning and ending inventory balances, are used to compute the cost of goods sold for the period. The ending inventory balance is determined by actual physical count, since a continuous balance is not maintained on merchandise inventory. The computation of cost of goods sold is as follows:

Beginning Inventory + Net Cost of Purchases = Cost of Goods Available for Sale

Cost of Goods – Ending Inventory = Cost of Goods Sold

EXAMPLE: The books show the following account balances:

Merchandise Purchases	$100,000
Purchase Discounts	2,000
Purchase Returns/Allowances	1,000
Transportation-In	5,000
Inventory (beginning)	10,000

The ending inventory, determined by actual physical count, is $20,000.

Entry to record cost of goods available for sale:

Dr. *Cost of Goods Sold	112,000	
Dr. Purchase Discounts	2,000	
Dr. Purchase Returns/Allowances	1,000	
Cr. Merchandise Purchases		100,000
Cr. Inventory (beginning)		10,000
Cr. Transportation-In		5,000

Entry to deduct ending inventory:

Dr. Inventory (ending)	20,000	
Cr. *Cost of Goods Sold		20,000

EXPLANATION: The first entry closes all the purchase-related accounts and the beginning inventory into the account Cost of Goods Sold. This account does not really represent the cost of the goods sold until the second entry has been made. The second entry deducts the ending inventory from the cost of the goods available for sale, giving you the actual cost of goods sold. These entries should both be made at the end of the period.

METHOD: Make these entries in the General Journal.

Perpetual Inventory Procedure

SITUATION: The business uses the perpetual inventory procedure.

EXPLANATION: The perpetual inventory procedure is a method of accounting for inventory where the cost of merchandise sold is determined after each sale is made, not at the end of the period, as with the periodic inventory method. The balance in the inventory account is always the amount of merchandise that should be on hand. The perpetual inventory procedure provides greater control over goods and would normally be used with items of high unit value. All entries relating to the purchase of merchandise are entered in the inventory account, and the inventory account is reduced when a sale of merchandise is made.

EXAMPLE: A shipment of five television sets is received from the Southern Wholesale Company. Each set costs the business $200; the freight cost for this shipment is $25. Later, one television is sold to a customer, Betty Finley, on account for $300.

Entry to record purchase of merchandise:

Dr. Inventory	1,025	
Cr. *Accounts Payable—Southern Wholesale Co.		1,025

Entries to record sale:

Dr. *Accounts Receivable—Betty Finley	300	
Cr. Sales Revenue		300
Dr. *Cost of Goods Sold	205	
Cr. Inventory		205

EXPLANATION: The purchase of merchandise is entered directly in the inventory account as shown in the first entry. After the sale is recorded at the sales price, the cost of the merchandise must be deducted from the inventory account, as shown in the third entry. The cost of the set is calculated as follows:

[($200 x 5) + $25] / 5 = $205.

METHOD: (1) The first entry can be made through the Accounts Payable module, the second through the Accounts Receivable module and the third through the General Journal, or (2) all entries can be made through the General Journal.

Purchase of Merchandise

SITUATION: The business purchases merchandise.

EXAMPLE: The business purchases merchandise costing $5,500 on account from Zenith.

ENTRY:

Dr. Merchandise Purchases	5,500	
Cr. *Accounts Payable—Zenith		5,500

Note: This entry is only appropriate when using the periodic inventory procedure. See Perpetual Inventory Procedure for the entry to record merchandise purchases using the perpetual method.

METHOD: This entry can be made through the Accounts Payable module or the General Journal.

Purchase Discounts

SITUATION: The business takes purchase discounts.

EXAMPLE: The business makes a purchase on account of $2,000 from RCA on June 12 with terms of 2/10, net 30.

Note: These terms mean that the buyer may take a discount of 2 percent of the gross invoice price of the merchandise if payment is made within 10 days following the invoice date. Otherwise, the gross invoice price is due 30 days from the invoice date.

Entry to record purchase:

Dr. Merchandise Purchases	2,000	
Cr. *Accounts Payable—Zenith		2,000

Entry to record payment on account, less discount:

Dr. *Accounts Payable—Zenith	2,000	
Cr. Cash in Bank		1,960
Cr. Purchase Discounts		40

Note: The Purchase Discounts account is a contra account to Merchandise Purchases and is shown as a reduction to Merchandise Purchases on the Income Statement.

METHOD: (1) Both entries can be made through the Accounts Payable module, or (2) the first entry can be made in the General Journal and the second through the Cash Disbursements Journal, or (3) both entries can be made through the General Journal.

Note: An alternative method of recording purchase discounts is the net price procedure. This method records purchases (purchases minus available discount). If the discount is not taken, the amount of the discount can be recorded in an account set up and called Discounts Lost when the gross invoice payment is made. The Discounts Lost account should be an expense on the Income Statement. If the perpetual inventory method is used, the net price procedure is preferable. The net price procedure is not illustrated here.

Purchase Returns and Allowances

SITUATION: The business returns merchandise it has purchased or is granted an allowance (reduction in amount owed) because of unsatisfactory merchandise.

EXAMPLE: The business purchased merchandise on account for $300 then returned it to the seller, Foremost TV, Inc., because it was not satisfactory.

ENTRY:

Dr. *Accounts Payable—Foremost TV, Inc.	300	
Cr. Purchase Returns/Allowances		300

Note: The Purchase Returns/Allowances account is a contra account to Merchandise Purchases and is shown as a reduction to Purchases on the Income Statement.

METHOD: This entry can be made through the Accounts Payable module or the General Journal. If the entry to record the original purchase is made through the Accounts Payable module, this entry *should* also be made through the Accounts Payable module.

Transportation-in

SITUATION: The business incurs transportation costs in acquiring merchandise inventory.

EXAMPLE: The shipping cost billed to you on a recent shipment of merchandise from Acme Trucking Company is $200. This amount will be paid later.

ENTRY:

Dr. Transportation-In	200	
Cr. *Accounts Payable—Acme Trucking Co.		200

Note: Transportation-in is a cost of obtaining the merchandise inventory. This cost should be included with purchases and related accounts in determining the cost of goods sold on a periodic inventory basis. If the perpetual inventory method is used, this cost would be charged directly to the inventory account rather than to a separate transportation-in account.

METHOD: This entry can be made through the Accounts Payable module or the General Journal.

Transportation-out

SITUATION: The business incurs transportation costs in delivering merchandise to customers.

EXAMPLE: The freight cost paid to ship goods to customers is $150.

ENTRY:

Dr. Freight Expense	150	
Cr. Cash in Bank		150

Note: Freight Expense can also be called transportation-out or delivery expense. It is not a cost of merchandise inventory. Instead, transportation-out is a selling expense and should be shown on the Income Statement among other similar expenses.

METHOD: This entry can be made through the Cash Disbursements Journal or the General Journal.

Adjusting and Reversing Entries

Prepaid Insurance

SITUATION: The business pays for insurance in advance.

EXAMPLE: The business pays an annual insurance premium of $1,200 at the beginning of the accounting period.

Entry to record payment of premium:

Dr. Prepaid Insurance	1,200	
Cr. Cash in Bank		1,200

Entry to record monthly expense:

Dr. Insurance Expense	100	
Cr. Prepaid Insurance		100

EXPLANATION: When an expense such as insurance is paid in advance, an asset is created. As time passes, the asset expires and becomes an expense. The second entry reflects the expiration of the asset. At the end of 12 months, the balance in the Prepaid Insurance account will be zero if there are no other insurance premiums paid in advance. This zero balance would indicate that the asset had completely expired and 12 months' insurance expense had been recognized.

METHOD: (1) The premium payment entry can be made through the Cash Disbursements Journal and the monthly expense entries made through the General Journal, (2) the premium payment entry can be made through the Cash Disbursements Journal and then an entry can be set up in the Automatic Journal Entries for the monthly expense entries, or (3) all entries can be made through the General Journal.

Notes: (1) If the Automatic Journal Entries approach is used, remember to remove the entry from the automatic entries at the end of the year. (2) The approach just outlined can be used for many types of prepaid expenses such as prepaid rent, interest or advertising.

Prepaid Rent

SITUATION: The business pays for rent in advance.

EXAMPLE: The business pays an annual rent payment of $2,400 at the beginning of the accounting period.

Entry to record payment of rent:

Dr. *Prepaid Rent	2,400	
Cr. Cash in Bank		2,400

Entry to record monthly expense:

Dr. Rent Expense	200	
Cr. *Prepaid Rent		200

EXPLANATION: When an expense such as rent is paid in advance, an asset is created. As time passes, the asset expires and becomes an expense. The second entry reflects the expiration of the asset. At the end of 12 months, the balance in the Prepaid Rent account will be zero if there are no other rent payments made in advance. This zero balance would indicate that the asset had completely expired and 12 months' rent expense had been recognized.

METHOD: (1) The payment entry can be made through the Cash Disbursements Journal and the monthly expense entries can be made through the General Journal, (2) the payment entry can be made through the Cash Disbursements Journal and then an entry can be set up in the Automatic Journal Entries for the monthly expense entries, or (3) all entries can be made through the General Journal.

Notes: (1) If the Automatic Journal Entries approach is used, remember to remove the entry from the automatic entries at the end of the year. (2) The approach just outlined can be used for many types of prepaid expenses such as prepaid insurance, interest or advertising.

Supplies

SITUATION: The business purchases supplies in advance.

EXAMPLE: At the beginning of the period, the business purchases supplies for cash of $2,000. At the end of the period, an actual physical count shows that $500 of supplies are on hand.

Entry to record the purchase:

Dr. *Supplies on Hand	2,000	
Cr. Cash in Bank		2,000

Entry to record the supplies usage:

Dr. *Supplies Expense	1,500	
Cr. *Supplies on Hand		1,500

Note: The supplies expense is the difference between the amount purchased ($2,000) and the amount remaining on hand at the end of the period ($500).

METHOD: (1) The first entry can be made through the Cash Disbursements Journal and the second through the General Journal, or (2) both entries can be made through the General Journal.

Note: Sometimes supplies will be bought and completely used up within the same accounting period. If this is the case, it is easier to debit the expense (rather than the asset) at the time of the purchase. This approach avoids the need to make the adjusting entry at the end of the period.

Depreciation

SITUATION: The business incurs depreciation on its long-lived assets.

EXAMPLE: A machine used in the business has an original cost of $13,000, a life of 5 years, and an estimated salvage value of $1,000. The business uses the straight-line method of depreciation. Depreciation expense is to be recorded monthly.

ENTRY:

Dr. Depreciation Expense	200	
Cr. Accumulated Depreciation		200

Note: The monthly depreciation was calculated as follows:

Monthly depreciation = Cost – Estimated salvage value/
Number of months of useful life
= $13,000 – $1,000
= $12,000/60months
= $200 per month

METHOD: (1) This entry can be made monthly through the General Journal, or (2) this entry can be set up in the Automatic Journal Entries, which will make the entry every month.

Note: If the Automatic Journal Entries approach is used, the entry must be removed at the end of the asset's life (that is, at the end of five years).

Accrued Assets: Accounts Receivable

SITUATION: The business has assets such as accounts receivable that must be accrued.

EXAMPLE: At the end of the month, the business has performed $1,500 of delivery services on account for the Southern Wholesale Company. This customer has not been billed.

ENTRY:

Dr. Accounts Receivable—Southern Wholesale Co.	1,500	
Cr. Service Revenue		1,500

Notes: (1) In most cases, the business would not record accounts receivable until the actual billing process had been performed. Because the services have been performed, the business has earned this revenue and should reflect that fact in the accounts. The

previous entry records the revenue earned and accrues the asset, accounts receivable of $1,500, which has not yet been recorded. (2) When the accounts receivable is actually billed, do not record the accounts receivable and service revenue again. This would result in an overstatement of these accounts.

METHOD: This entry can be made through the Accounts Receivable module or the General Journal.

Accrued Assets: Interest Receivable

SITUATION: The business has assets such as interest receivable that must be accrued.

EXAMPLE: At the end of the month, interest on a loan to a customer (see Notes Receivable for an example of such a loan) has earned interest of $200, although an interest payment is not due until the first of the next month.

Entry to record accrued interest:

Dr. *Interest Receivable	200	
Cr. Interest Revenue		200

Entry to record receipt of interest (next month):

Dr. Cash in Bank	200	
Cr. *Interest Receivable		200

Note: The first entry should be made because the interest revenue has been earned before the actual payment of interest has been received.

METHOD: (1) The first entry can be made through the General Journal and the second through the Cash Receipts Journal, or (2) both entries can be made through the General Journal.

Note: The approach outlined above can be used for many types of accrued assets, such as accrued rent receivable and commissions receivable.

Accrued Liabilities

SITUATION: The business has liabilities that must be accrued.

EXAMPLE: Salaries and wages since the last payday amount to $1,000. These have not been paid as of the last day of the month.

ENTRY:

Dr. Salaries & Wages	1,000	
Cr. Salaries & Wages Payable		1,000

Notes: (1) Although these salaries and wages are not due to be paid until the next payday, the employees have earned these amounts. Therefore, the business has an unrecorded expense as of the end of the month that should be recorded. (2) When the next payroll is paid, the entry should be reduced by the amount already recorded above or make a reversing entry. Otherwise, there would be an overstatement of both accounts.

METHOD: This entry can be made through the General Journal.

Unearned Revenues

SITUATION: The business receives assets before they are earned.

EXAMPLE: The business receives a payment of $3,000 from a customer for delivery services to be performed in the future.

Entry to record cash receipt:

Dr. Cash in Bank	3,000	
Cr. *Unearned Service Revenue		3,000

Entry to record performance of service:

Dr. *Unearned Service Revenue	3,000	
Cr. *Service Revenue		3,000

EXPLANATION: When cash is received from a customer in advance of a service being performed, a liability is created. Until the service has been performed, the business is obligated either to provide the service or return the customer's money. The first entry records this obligation in the liability account, "Unearned Service Revenue." When the service is performed, the obligation is canceled and revenue is earned. The second entry reduces the liability to zero and records the revenue that has now been earned.

METHOD: (1) The first entry can be made through the Cash Receipts Journal and the second through the General Journal, or (2) both entries can be made through the General Journal.

Reversing Entries

SITUATION: The business uses reversing entries.

EXAMPLE: Assume that an adjusting entry was made at the end of last period to record interest expense of $1,000 incurred but not yet paid. At the beginning of this period, a reversing entry for this item is to be made.

Entry to record interest expense (made last period):

Dr. Interest Expense	1,000	
Cr. *Accrued Interest Payable		1,000

Entry to reverse interest accrual (made this period):

Dr. *Accrued Interest Payable	1,000	
Cr. Interest Expense		1,000

Entry to record interest payment (made this period):

Dr. Interest Expense	1,000	
Cr. Cash in Bank		1,000

EXPLANATION: Reversing entries reverse the effects of adjusting entries such as the interest accrual made in the prior period. The purpose of a reversing entry is to relate the first entry to that same item in the next accounting period. The entry to record the interest payment can be made like other interest payments, that is, by debiting interest expense rather than accrued interest payable. Reversing entries are optional and only relate to bookkeeping technique.

METHOD: (1) The adjusting and reversing entries can be made through the General Journal and the interest payment can be made through the Cash Disbursements Journal, or (2) all entries can be made through the General Journal.

Assets: Additional Entries

Bank Reconciliation Entries

SITUATION: The business must make bank reconciliation entries.

EXAMPLE: After reconciling the monthly bank statement, the following items must be recorded on the books:

1. NSF check from customer	$140
2. Bank service and collection charges	25
3. Interest earned on checking account	15

Entries:

(1) Dr. Accounts Receivable—Bob Jones	140	
Cr. Cash in Bank		140
(2) Dr. *Bank Charges	25	
Cr. Cash in Bank		25
(3) Dr. Cash in Bank	15	
Cr. Interest Revenue		15

Note: The last two entries can be combined and the net change in cash (a reduction of $40) recorded.

METHOD: These entries can be made through the General Journal. (See Bad Debts in the Accounts Receivable section.)

Cash Over/Short

SITUATION: The business has discrepancies in the cash on hand.

EXAMPLE: At the end of the day, the total of the cash register tape is $530. The actual cash count is $525. The shortage of $5 must be recorded along with the cash sales. (Assume no sales tax in this example.)

ENTRY:

Dr. Cash in Bank	525	
Dr. Cash Over/Short	5	
Cr. Sales Revenue		530

METHOD: This entry can be made through the Cash Sales Journal, Cash Receipts Journal or General Journal. The Cash Sales Journal provides a format to automatically reconcile differences in cash on hand and cash register totals.

Petty Cash Established

SITUATION: The business establishes a petty cash fund.

EXAMPLE: The business wants to set up a petty cash fund of $200.

ENTRY:

Dr. Petty Cash	200	
Cr. Cash in Bank		200

Notes: (1) A check is issued to cash or the fund cashier. The check is cashed and the money turned over to the fund cashier to maintain. (2) If the account Cash on Hand is not being used for cash sales, then this account can replace the account Petty Cash indicated above.

METHOD: This entry can be made through the Cash Disbursements Journal or the General Journal.

Petty Cash Replenished

SITUATION: The business replenishes the petty cash fund.

EXAMPLE: The petty cash fund of $200 (see previous example) has a money balance of $25 and needs to be replenished. A summary of the petty cash vouchers (receipts) shows payments of $75 for postage stamps, $40 for delivery fees (office expenses), and $60 for miscellaneous expense items.

ENTRY:

Dr. Postage Expense	75	
Dr. Office Expense	40	
Dr. Miscellaneous Expense	60	
Cr. Cash in Bank		175

Note: To replenish the petty cash fund, a check is issued to cash or the fund cashier. This check is cashed and the money placed in the petty cash fund to return the actual cash balance to its original balance ($200 in this case).

METHOD: This entry can be made through the Cash Disbursements Journal or the General Journal.

Bad Debts: Percentage-of-Sales Method

SITUATION: The business estimates bad debts using the percentage-of-sales method.

EXAMPLE: The business estimates its bad debt expense to be 1 percent of sales. This estimate is based on prior experience. Credit sales for the year are $50,000. At the end of the year bad debt expense needs to be recorded.

ENTRY:

Dr. Bad Debts Expense	500	
Cr. Allowance for Bad Debts		500

EXPLANATION: The percentage-of-sales method of estimating bad debts is based upon prior years' experience. Using past experience, it is possible to reasonably estimate the current period's bad debts by looking at the ratio of prior years' actual bad debt losses to prior years' credit sales. The Allowance for Bad Debts account is a contra asset account to accounts receivable. The allowance is credited, rather than directly crediting accounts receivable, because the specific uncollectible customer accounts are not known. The allowance will be reported as a reduction from accounts receivable on the Balance Sheet.

METHOD: This entry can be made through the General Journal.

Bad Debts: Percentage-of-Receivables Method

SITUATION: The business estimates bad debts using the percentage-of-receivables method.

EXAMPLE: At the end of the year, the balance in accounts receivable is $30,000. It is estimated that 5 percent of these receivables will be uncollectible. The allowance for bad debts presently has a credit balance of $500.

ENTRY:

Dr. Bad Debts Expense	1,000	
Cr. Allowance for Bad Debts		1,000

EXPLANATION: The percentage-of-receivables method estimates the desired balance in the allowance for bad debts by looking only at those accounts that remain uncollected at the end of the period, that is, the accounts receivable balance at the end of the period. In this case, the allowance is estimated to be $1,500. Since there is already a credit balance in the allowance of $500, the increase to the allowance is only $1,000, as shown in this entry. After making the entry, the balance in the allowance will be a credit of $1,500. The Allowance for Bad Debts account is a contra asset account to accounts receivable. The allowance is credited rather than directly crediting accounts receivable because the specific uncollectible customer accounts are not known. The allowance will be reported as a deduction from accounts receivable on the Balance Sheet.

METHOD: This entry can be made through the General Journal.

Accounts Receivable Write-Off

SITUATION: The business writes off accounts receivable.

EXAMPLE: The business has identified the account of one customer, Bob Jones, to be uncollectible. His accounts receivable balance is $250.

ENTRY:

Dr. Allowance for Bad Debts	250	
Cr. *Accounts Receivable—Bob Jones		250

Note: This entry does not result in bad debts being recorded as an expense twice. The expense is recorded at the time that bad debts are estimated and the allowance for bad debts adjusted. This entry simply takes the specific bad debt out of the accounts receivable balance.

METHOD: This entry can be made through the General Journal. (See Bad Debts in the Accounts Receivable section of Back to Basics.)

Note: Another method of writing off bad debts, the direct write-off method, is sometimes used. This method does not estimate bad debts. When a specific account is determined to be uncollectible, the account is charged (debited) to bad debt expense. The direct write-off method is only acceptable where accounts receivable and bad debts are immaterial (insignificant) amounts for the business.

Bad Debt Recovery

SITUATION: The business recovers a bad debt previously written off.

EXAMPLE: A check for $250 is received from Bob Jones in payment of an account previously written off. (See previous example.)

Entry to reverse original write-off:

Dr. Accounts Receivable—Bob Jones	250	
Cr. Allowance for Bad Debts		250

Entry to record collection:

Dr. Cash in Bank	250	
Cr. Accounts Receivable—Bob Jones		250

Note: The first entry reinstates the account, and the second entry records the receipt of his check.

METHOD: (1) The first entry can be made through the General Journal and the second through the Cash Receipts Journal, or (2) both entries can be made through the General Journal. (See Bad Debts in the Accounts Receivable section of Back to Basics.)

Finance Charges

SITUATION: The business levies finance charges on accounts receivable.

EXAMPLE: Jack Smith has an account receivable balance of $1,000, which is 30 days past due. The policy of the business is to charge a finance charge of 1 percent per month on all accounts past due 30 days or longer.

ENTRY:

Dr. *Accounts Receivable—Jack Smith	10	
Cr. Finance Charge Revenue		10

Note: The finance charge was calculated as follows:

$1,000 x 1% = $10.

METHOD: This entry can be made through the Accounts Receivable module or the General Journal. If the Accounts Receivable module is used, finance charges will be calculated automatically, based on the finance charge option selected.

Credit Card Sales: Nonbank Cards

SITUATION: The business has nonbank credit card sales.

EXAMPLE: At the end of the day, the business has American Express invoices amounting to $200. Assume that American Express charges a service charge of 5 percent of the sales price.

Entry to record credit card sales:

Dr. Accounts Receivable—American Express	200	
Cr. Sales Revenue		200

Entry to record remittance from American Express:

Dr. Cash in Bank	190	
Dr. *Credit Card Expense	10	
Cr. *Accounts Receivable—American Express		200

Note: The credit card expense of $10 is 5 percent of the sales of $200.

METHOD: (1) Both entries can be made through the Accounts Receivable module, (2) the first entry can be made through the General Journal and the second can be made through the Accounts Receivable module, or (3) both entries can be made through the General Journal.

Credit Card Sales: Bank Cards

SITUATION: The business has bank credit card sales.

EXAMPLE: At the end of the day, MasterCard credit card sales amount to $300. Assume that MasterCard charges a service charge of 5 percent of the sales price.

ENTRY:

Dr. Cash in Bank	285	
Dr. *Credit Card Expense	15	
Cr. Sales Revenue		300

Note: Bank credit card sales are treated as if they were cash sales. The MasterCard invoices would be deposited in the checking account just as checks would be deposited. The credit card expense is simply 5 percent of the sales of $300.

METHOD: This entry can be made through the Cash Receipts Journal or the General Journal.

Notes Receivable

SITUATION: The business accepts notes receivable from customers.

EXAMPLE: Chris Perkins purchased $2,000 of merchandise on open account (account receivable) last month. Perkins is not able to pay the bill in the normal credit period. The business accepts a $2,000, 14 percent, 90-day note from Perkins to settle his open account.

ENTRY:

Dr. *Notes Receivable—Chris Perkins	2,000	
Cr. *Accounts Receivable—Chris Perkins		2,000

Note: This entry removes Perkins' account from the normal accounts receivable. The related interest is not recorded until it is earned, that is, after time has passed.

METHOD: This entry can be made through the General Journal. (See Accounts Receivable in the Accounts Receivable section of Back to Basics.)

Dishonored Notes Receivable

SITUATION: The business has notes receivable that are not honored.

EXAMPLE: The $2,000, 14 percent, 90-day note receivable accepted from Chris Perkins in settlement of his open account (see previous example) is not honored at maturity. Assume that no interest has yet been recorded on the note.

ENTRY:

Dr. *Accounts Receivable—Chris Perkins	2,070	
Cr. *Notes Receivable—Chris Perkins		2,000
Cr. Interest Revenue		70

Note: Because the note has matured, it is no longer negotiable. Therefore, it must be removed from notes receivable, but the note is still an account receivable from Perkins. The interest on the note is also due from Perkins and is included in the total receivable from him. Calculate the interest income as follows:

$2,000 x 14% x 90/360 = $70.

METHOD: This entry can be made through the General Journal.

Notes Receivable Discounted

SITUATION: The business discounts (sells) notes receivable to the bank.

EXAMPLE: A note receivable from a customer with a face value of $5,000 is discounted (sold) to the bank. The business receives cash of $4,950 from the bank.

Entry to record discounting of note:

Dr. Cash in Bank	4,950	
Dr. Interest Expense	50	
Cr. *Notes Receivable Discounted		5,000

Entry to record payment of note (by customer):

Dr. *Notes Receivable Discounted	5,000	
Cr. *Notes Receivable		5,000

EXPLANATION: When a note receivable is sold, the bank will compute the proceeds based on the interest rate on the note, the time to maturity, and the interest rate (discount rate) charged by the bank. The difference between the cash proceeds and the face value of the note is recorded as interest expense or interest revenue. In this case, the face value of the note exceeded the cash proceeds, so the result was interest expense. If the proceeds had exceeded the face value of the note, the difference would be recorded as interest revenue. The account, Notes Receivable Discounted, is a contra account to Notes

Receivable. This contra account is used to show that there is a contingent liability to pay the note if the customer defaults. When the customer pays the note (to the bank), the second entry is recorded to remove all accounts related to the note receivable from the books.

METHOD: (1) The first entry can be made through the Cash Receipts Journal and the second through the General Journal, or (2) both entries can be made through the General Journal.

Inventory Write-Down

SITUATION: The business writes down its inventory to net realizable value.

EXAMPLE: A television set that is carried in inventory has been used as a floor model. This television had a cost of $200 and an original sales price of $300. Because this set has been used extensively, the estimated selling price is $225. In addition, there will be a sales commission of $50 when sold.

ENTRY:

Dr. *Loss Due to Decline in Market Value	25	
Cr. Inventory		25

EXPLANATION: Damaged, obsolete or shopworn goods should not be carried in inventory at more than their net realizable value. Net realizable value is the estimated selling price of an item less any costs incurred to make it saleable and to dispose of it. In this example, the net realizable value is the estimated selling price of $225 less the sales commission of $50. Because the carrying cost of the inventory is $200 (the original cost), the inventory must be written down by $25 to its net realizable value of $175.

METHOD: This entry can be made through the General Journal.

Revision of Asset Life

SITUATION: The business revises the estimated life of long-lived assets.

EXAMPLE: A machine purchased three years ago has a cost of $50,000, accumulated depreciation of $24,000, estimated salvage value of $10,000 and an estimated life of five years. At the beginning of the fourth year, it is estimated that the machine will last four more years. The estimated salvage value remains at $10,000. The business uses the straight-line method of depreciation.

Entry to be made in the fourth and following years:

Dr. *Depreciation Expense	4,000	
Cr. Accumulated Depreciation		4,000

EXPLANATION: When an asset life is revised, future depreciation charges are usually adjusted for the change. This entry reflects the adjusted depreciation charge calculated as follows:

Asset cost	$50,000
Less accumulated depreciation	24,000
Book value	$26,000
Less salvage value	10,000
Depreciable amount remaining	$16,000
Divided by remaining life	/ 4
Straight-line depreciation per year	$ 4,000

Note: This annual depreciation would be divided by 12 to determine monthly depreciation entries.

METHOD: These entries can be made through the General Journal or set up in the Automatic Journal Entries. Setting them up in the Automatic Journal Entries is recommended when monthly straight-line depreciation entries are made.

Sale of Plant Assets

SITUATION: The business sells plant assets.

EXAMPLE: The business sells equipment costing $40,000 with accumulated depreciation of $35,000 for $3,000.

ENTRY:

Dr. Cash in Bank	3,000	
Dr. Accumulated Depreciation	35,000	
Dr. *Loss on Disposal of Plant Assets	2,000	
Cr. Machinery & Equipment		40,000

Note: Depreciation should be recorded to the date of sale before this entry is made. This entry removes all accounts related to the equipment from the books, since the asset has been sold.

METHOD: This entry can be made through the Cash Receipts Journal or the General Journal.

Retirement of Plant Assets

SITUATION: The business retires plant assets.

EXAMPLE: The business retires a machine with an original cost of $30,000 and accumulated depreciation of $28,000. The machine has no salvage value.

ENTRY:

Dr. Accumulated Depreciation	28,000	
Dr. *Loss on Disposal of Plant Assets	2,000	
Cr. Machinery & Equipment		30,000

Note: Depreciation should be recorded to the date of retirement before this entry is made. This entry removes all accounts related to the equipment from the books, since the asset has been retired.

METHOD: This entry can be made through the General Journal.

Destruction of Plant Assets

SITUATION: The business suffers destruction of plant assets.

EXAMPLE: A building costing $75,000 with accumulated depreciation of $55,000 is completely destroyed by fire. Proceeds of $15,000 are received from the insurance company.

ENTRY:

Dr. Cash in Bank	15,000	
Dr. *Fire Loss	5,000	
Dr. Accumulated Depreciation	55,000	
Cr. Buildings		75,000

Note: Depreciation should be recorded to the date of the fire before this entry is made. This entry removes all accounts related to the equipment from the books, since the asset has been destroyed. The fire loss is the difference between the book value (cost—accumulated depreciation) of the building and the proceeds received from the insurance company. If the building had not been insured, the fire loss would have been the entire book value of the building.

METHOD: This entry can be made through the Cash Receipts Journal or the General Journal.

Franchises

SITUATION: The business acquires franchises.

EXAMPLE: The business purchases a franchise costing $72,000. Assume the economic life of the franchise exceeds the contract life of 10 years.

Entry to record purchase:

Dr. *Franchises	72,000	
Cr. Cash in Bank		72,000

Entry to record monthly amortization:

Dr. Amortization Expense	600	
Cr. *Franchises		600

EXPLANATION: The cost of intangible assets such as franchises can only include the outright purchase costs. Intangible assets are amortized either at the shorter of their legal life or the estimated useful life. In this example, the legal life of the franchise (the contract life of 10 years) is exceeded by its useful life, so the legal life is used as the basis for amortization. Amortization is calculated as follows:

$72,000 / 10 years / 12 months = $600.

METHOD: (1) The first entry can be made through the Cash Disbursements Journal and the monthly entries can be made through the General Journal, (2) the first entry can be made through the Cash Disbursements Journal and then an entry can be set up in the Automatic Journal Entries for the monthly amortization entries, or (3) all entries can be made through the General Journal.

Note: If the Automatic Journal Entries approach is used, the entry must be removed at the end of the asset's life (that is, at the end of 10 years).

Organization Costs

SITUATION: The business incurs organization costs.

EXAMPLE: The business pays a total of $7,200 for state incorporation fees and legal fees applicable to organizing the corporation. These costs are to be amortized over five years.

Entry to record payment:

Dr. Organization Costs	7,200	
Cr. Cash in Bank		7,200

Entry to record monthly amortization:

Dr. Amortization Expense	120	
Cr. Organization Costs		120

Note: Organization costs are intangible assets and should be amortized over a period not to exceed 40 years. Most organization costs are relatively small in amount and are amortized over a much shorter period than 40 years. The selection of five years in this example was arbitrary. Amortization was calculated as follows:

$7,200 / 5 years / 12 months = $120.

METHOD: (1) The first entry can be made through the Cash Disbursements Journal and the monthly entries can be made through the General Journal, (2) the first entry can be made through the Cash Disbursements Journal and then an entry can be set up in the Automatic Journal Entries for the monthly amortization entries, or (3) all entries can be made through the General Journal.

Note: If the Automatic Journal Entries approach is used, the entry must be removed at the end of the asset's life (that is, at the end of five years).

Leasehold Improvements

SITUATION: The business acquires leasehold improvements.

EXAMPLE: The business makes improvements with a cost of $9,600 to a leased building. At the time of the improvements, the remaining term of the lease is four years. The leasehold improvements have a useful life of 10 years.

Entry to record acquisition:

Dr. Leasehold Improvements	9,600	
Cr. Cash in Bank		9,600

Entry to record monthly amortization:

Dr. Rent Expense	200	
Cr. Leasehold Improvements		200

EXPLANATION: Leasehold improvements usually remain with the leased property when the lease expires. They are really part of the cost of the leased asset and, therefore, should be recorded as rent expense. The amortization period for leasehold improvements is the shorter of their useful life or the life of the lease. In this example, the life of the lease is shorter than the useful life, so the life of the lease is used as the basis for amortization. Amortization is calculated as follows:

$9,600 / 4 years / 12 months = $200.

Note: Sometimes, in practice, leasehold improvements are included in the property, plant and equipment section of the balance sheet.

METHOD: (1) The first entry can be made through the Cash Disbursements Journal and the monthly entries can be made through the General Journal, (2) the first entry can be made through the Cash Disbursements Journal and then an entry can be set up in the Automatic Journal Entries for the monthly amortization entries, or (3) all entries can be made through the General Journal.

Note: If the Automatic Journal Entries approach is used, the entry must be removed at the end of the asset's life (that is, at the end of four years).

Liabilities: Additional Entries

Bank Loan

SITUATION: The business borrows money from the bank.

EXAMPLE: The business signs a $5,000, 90-day, 14 percent note at the First National Bank and receives $5,000 cash.

Initial entry:

Dr. Cash in Bank	5,000	
Cr. Notes Payable—First National Bank		5,000

Entry at maturity:

Dr. Notes Payable—First National Bank	5,000	
Dr. Interest Expense	175	
Cr. Cash in Bank		5,175

Note: If interest had been accrued monthly, then the amount of the interest expense in the entry at maturity will be only that amount accruing from the last date interest was recorded. Calculate the interest expense as follows:

$5,000 x 14% x 90/360 = $175.

METHOD: (1) The initial entry can be made through the Cash Receipts Journal and the entry at maturity can be made through the Cash Disbursements Journal, or (2) both entries can be made in the General Journal.

Notes Payable: Noninterest-Bearing

SITUATION: The business issues noninterest-bearing notes.

EXAMPLE: The business presents its $1,000, 60-day, noninterest-bearing note to the First National Bank, which discounts it at 15 percent. Assume that interest expense is not recorded until maturity.

Entry to record issuance of note:

Dr. Cash in Bank	975	
Dr. Interest Expense	25	
Cr. *Notes Payable—First National Bank		1,000

Entry to record payment of note at maturity:

Dr. *Notes Payable—First National Bank	1,000	
Cr. Cash in Bank		1,000

EXPLANATION: Because the bank must earn interest on the money it loans, it deducts a bank discount from the proceeds of the note. This amount is recorded in the account Discount on Notes Payable. This discount is not interest at the date the loan is made, but it will become interest over time. The entry at maturity shows the recording of interest expense and the corresponding reduction of the discount. Interest expense could be recorded before maturity (for example, at the end of each month), and the entry at maturity would be adjusted accordingly. In this example, interest expense is calculated as follows:

$1,000 x 15 percent x 60/360 = $25.

METHOD: (1) The first entry can be made through the Cash Receipts Journal and the second through the Cash Disbursements Journal, or (2) both entries can be made through the General Journal.

Owner's Equity Entries

Owner Investment

SITUATION: The owner makes an investment in the business.

EXAMPLE: The owner invests $10,000 in the business to provide operating funds.

ENTRY:

Dr. Cash in Bank	10,000	
Cr. *Owner, Capital		10,000

Note: If the business is a partnership, each partner would have his own capital account. The partner making the investment would have his capital account credited for the amount of the investment.

METHOD: This entry can be made through the Cash Receipts Journal or the General Journal.

Owner Withdrawal

SITUATION: The owner makes a withdrawal from the business.

EXAMPLE: The owner withdraws $2,000 from the business for his personal use.

ENTRY:

Dr. *Owner, Drawing	2,000	
Cr. Cash in Bank		2,000

or

Dr. *Owner, Capital	2,000	
Cr. Cash in Bank		2,000

Notes: (1) The use of the owner's drawing account is optional, but it provides a clearer record of withdrawals than directly reducing the owner's capital account. (2) If the owner's drawing account is used, it is closed to the owner's capital account at the end of the accounting period. (3) As was the case with owner investments, if the business is a partnership, each partner would have his own drawing account. The partner making the withdrawal would have his drawing account (or capital account) debited for the amount of the withdrawal.

METHOD: This entry can be made through the Cash Disbursements Journal or the General Journal.

Stock Issued with Par Value

SITUATION: The business issues stock with a par value.

EXAMPLE: The corporation issues 100 shares of its $10 par value common stock for $15 per share.

ENTRY:

Dr. Cash in Bank	1,500	
Cr. *Common Stock		1,000
Cr. *Paid-in Capital in Excess of Par Value		500

EXPLANATION: The common stock account is recorded at par value. Any amount received for the stock in excess of the par value is recorded in a separate paid-in-capital account.

METHOD: This entry can be made through the Cash Receipts Journal or the General Journal.

Stock Issued with Stated Value

SITUATION: The business issues stock with a stated value.

EXAMPLE: The corporation issues 200 shares of its no-par, $20 stated value common stock for $25 per share.

ENTRY:

Dr. Cash in Bank	5,000	
Cr. *Common Stock		4,000
Cr. *Paid-in Capital in Excess of Stated Value		1,000

EXPLANATION: The common stock account is recorded at stated value. Any amount received for the stock in excess of the stated value is recorded in a separate paid-in-capital account.

METHOD: This entry can be made through the Cash Receipts Journal or the General Journal.

Stock Issued with No Par Value

SITUATION: The business issues stock with no par or stated value.

EXAMPLE: The corporation issues 50 shares of its common stock with no par or stated value for $30 per share.

ENTRY:

Dr. Cash in Bank	1,500	
Cr. *Common Stock		1,500

Note: When stock has no par or stated value assigned, the entire amount received for the stock is recorded in the common stock account.

METHOD: This entry can be made through the Cash Receipts Journal or the General Journal.

Cash Dividends

SITUATION: The business pays cash dividends.

EXAMPLE: The corporation's board of directors declares a cash dividend of $3 per share of common stock. There are 1,000 shares of common stock outstanding.

Entry to record dividend declaration:

Dr. *Retained Earnings	3,000	
Cr. *Dividends Payable		3,000

Entry to record dividend payment:

Dr. *Dividends Payable	3,000	
Cr. Cash in Bank		3,000

Note: If the dividends are paid the same day they are declared, then the dividends payable account does not have to be used. Instead, Retained Earnings would be debited and Cash in Bank credited for $3,000.

METHOD: (1) The first entry can be made through the General Journal and the second entry made through the Cash Disbursements Journal, or (2) both entries can be made through the General Journal.

Appendix/Index

6

Chart of Accounts

Account Range	Account Number	Account Name
Assets		
	1000	Cash in Bank
	1020	Cash—Payroll Account
	1050	Money Market
	1070	Cash on Hand
	1100	Accounts Receivable
	1150	Interest Receivable
	1160	Due from Employees
	1170	Allowance for Bad Debts
	1200	Inventory
	1300	Prepaid Insurance
	1320	Prepaid Interest
	1340	Prepaid Taxes & Licenses
	1360	Prepaid Expenses—Misc
	1500	Furniture & Fixtures
	1520	Machinery & Equipment
	1540	Leasehold Improvements
	1560	Buildings
	1580	Land
	1600	Accumulated Depreciation
	1800	Investments
	1820	Deposits
	1840	Organization Costs
Liabilities		
	2000	Accounts Payable
	2100	Notes Payable
	2150	Layaway Deposits
	2200	FICA Payable
	2210	Federal W/H Payable
	2220	State W/H Payable
	2300	Salaries & Wages Payable
	2400	Sales Tax Payable
Equity		
	3000	Paid-in Capital
	3990	Retained Earnings

Chart of Accounts

Revenue		
	4000	Sales Revenue
	4050	Service Revenue
	4100	Sales Discounts
	4110	Sales Returns/Allowances
	4200	Finance Charge Revenue
	4250	Interest Revenue
	4310	Credit Card Discounts
	4490	Miscellaneous Revenue
Cost of Sales		
	4500	Merchandise Purchases
	4540	Purchase Discounts
	4560	Purchase Returns/Allow
	4580	Transportation-In
Expenses		
	5000	Salaries & Wages
	5100	Advertising Expense
	5110	Amortization Expense
	5130	Auto Expense
	5160	Bad Debts Expense
	5190	Cash Over/Short
	5210	Commissions Expense
	5240	Contract Labor Expense
	5270	Contributions
	5300	Depreciation Expense
	5330	Dues & Fees Expense
	5340	Entertainment Expense
	5360	Employee Benefits Exp
	5400	Freight Expense
	5430	Insurance Expense
	5460	Interest Expense
	5490	Late Charges
	5520	Legal & Accounting Exp
	5550	Licenses Expense
	5580	Miscellaneous Expense
	5610	Office Expense
	5630	Postage Expense
	5640	Rental Equipment

Expense

5670	Rent Expense
5700	Repairs/Maintenance Exp
5730	Tax Expense—Payroll
5760	Tax Expense—Property
5770	Tax Expense—Other
5790	Telephone Expense
5800	Travel Expense
5820	Utilities Expense

This glossary contains an alphabetical listing of definitions of terms used throughout the Back to Basics manual.

accrual A revenue or expense that gradually increases over a period of time.

adjusting entry An entry required at the end of an accounting period to record an internal transaction to bring the records up to date.

alpha-numeric A set of characters consisting of letters of the alphabet, numbers, symbols, or any combination of these. For example, AB-123.

amortization The periodic expense due to the decline in usefulness of an intangible asset or the allocation of bond premium or discount over the life of a bond issue.

assets Anything owned by a business. For example, a building.

Balance Sheet A statement listing the assets, liabilities, and capital of a business as of a specific date.

book value of an asset The cost of an asset minus any contra asset accounts.

break-even point The point in the operation where revenue and expenses are equal.

business transaction The occurrence of an event or condition that is recorded in the accounting records.

button Buttons that appear in dialog boxes and are clicked to designate, confirm, or cancel an action.

cancel button A button that appears in dialog boxes. Clicking this button cancels the command. This may serve as a second chance to edit a screen.

capital	The rights of the owners in a business after all liabilities have been paid.
capital stock	Shares of ownership in a corporation.
cash discount	A deduction allowed if an invoice is paid in a specific time.
cash dividend	The distribution of cash by a corporation to its shareholders.
character	One of a set of symbols grouped to express information, including the decimal digits 0-9, the letters A-Z, punctuation marks, and other special symbols.
Chart of Accounts	A listing of all accounts and account numbers used by the business.
check register	A report used to record all transactions paid by check.
click	The process of positioning the pointer on an icon or file, then pressing and quickly releasing the mouse button.
common stock	The basic ownership class of corporate capital stock.
contra asset account	An account that is an offset against an asset account. For example, Accumulated Depreciation.
credit	(l) The right side of an account, (2) the amount entered on the right side of an account, or (3) the act of entering an amount on the right side of an account.

current assets Cash or other assets that can be easily converted to cash or assets that will be consumed within a year or less.

current liabilities Liabilities that will be due in a short period of time (usually less than a year) and that are to be paid out of current assets.

data A general term referring to information (numbers, letters, or symbols) that your computer processes or produces.

debit (1) The left side of an account, (2) the amount entered on the left side of an account, or (3) the act of entering an amount on the left side of an account.

default value Information that already exists in the computer and appears on your screen during a program. You can use this existing information or type new information.

deferral The postponement of the recognition of an expense already paid or a revenue already earned.

depreciation The periodic cost of all assets except land.

desktop A working environment—the menu bar and gray area on the screen.

dialog box A box containing a message requesting more information from you.

dimmed command A command that appears dimmed on the screen compared to other commands in the menu. A dimmed command cannot be chosen.

dimmed icon An icon that represents a disk that has been ejected. Dimmed icons can be selected and opened, but the documents on them cannot be opened.

directory	A pictorial, alphabetical, or chronological list of the contents of a folder or a disk.
disk	An information storage medium consisting of a flat, circular magnetic surface on which information can be recorded in magnetic patterns.
display	A generic term for information that appears on a video screen.
double-click	The process of positioning the pointer where you want an action to take place, then pressing and releasing the mouse button twice in quick succession without moving the mouse.
drag	The process of positioning the pointer on an icon or file, pressing and holding the mouse button, moving the mouse, then releasing the mouse button. When you release the mouse button, you either confirm a selection or move an object to a new location.
equity	The rights or claims to the properties of a business.
error message	A prompt appearing on your screen to indicate a mistake in your entry or a problem in the system.
expenses	The amount of assets or services used in the process of earning revenue.
Federal Unemployment Compensation Tax	A federal tax paid by employers and used to provide temporary relief to those who become unemployed.
FICA	Federal Insurance Contribution Act Tax used to finance federal programs for disability, old-age benefits and insurance for the aged. Also known as "Social Security."
field	An area in a record set aside for a specific type of information.

finder	An application that's always available on the desktop. You use it to manage documents and applications, and to access disks.
fiscal year	The annual accounting period adopted by a business.
General Journal	A two-column journal used to record entries that do not fit into any special journal.
General Ledger	The principal ledger used in conjunction with subsidiary ledgers. It contains all the balance sheet and income statement accounts.
goodwill	An intangible asset attached to a business as a result of favorable reputation, product superiority, or location.
gross pay	Total earnings of an employee for a pay period.
I-beam	A type of pointer used in entering and editing text.
Income Statement	A summary of the revenues and expenses of a business for a specific period of time.
Income Summary Account	An account used in the closing process to summarize revenue and expenses of a business for a specific time.
initialize	A startup procedure that automatically resets all devices used with your computer, clears your screen, and loads the operating system.
input	Information typed into the computer.
K	Abbreviation for kilobyte, or 1024 bytes. Represents the amount of information storage.
liability	A debt of a business.

load	A generic term meaning to place an operating system, program, or utility in the computer's internal memory. (See memory.)
lock	To prevent documents or entire disks from being altered.
materiality	The concept that recognizes the practicality of ignoring small or insignificant deviations from generally accepted accounting practices.
maturity value	The amount due on the due date of a note.
memory	An area within your computer that stores information; the computer's internal memory and the disks or drives used with your computer.
menu	A computer video display listing the program selections available to you.
menu bar	The horizontal strip at the top of the screen that contains menu titles.
net pay	Gross pay less payroll deductions; the amount the employer is obligated to pay the employee.
note payable	A written promise to pay a specific amount that is owed by the business.
note receivable	A written promise to pay a specific amount to the business.
open	To create a window from an icon so you can view a document or directory.
output	Information produced by the computer, including printed listings and video screen displays.

owner's equity	The rights of the owner of a business.
paid-in capital	The capital acquired from stockholders.
par	The arbitrary monetary figure printed on a stock certificate.
password	A code word set up in the System File to restrict certain programs, fields or systems; a security measure.
payee	The person to whom a check or note is drawn.
Periodic Inventory System	An inventory system where revenue from sales is recorded each time a sale is made; the cost of merchandise on hand at the end of the period is determined by a detailed listing of the merchandise on hand (physical inventory).
Perpetual Inventory System	An inventory system that uses records that continually disclose the amount of the inventory.
Petty Cash	A special cash account used to pay small amounts.
physical inventory	A detail listing of all inventory on hand.
pointer	A small shape on the screen, most often an arrow pointing up and to the left, that tracks the movement of the mouse.
posting	The process of transferring debits and credits from the journal to the ledger.
preferred stock	A class of stock with preferential rights over common stock.

prepaid expenses	A supply or service that has not been used at the end of an accounting period.
present value	The estimated present worth of an amount of cash to be received (or paid) in the future.
press	The process of positioning the pointer on an icon or file and holding down the mouse button without moving the mouse.
program	A set of procedures arranged in the proper sequence to direct your computer to carry out an operation, such as solving a mathematical problem or producing a report.
promissory note	A written promise to pay a sum in money on demand or at a specific date.
prompt	A program message that appears on the screen and asks for a response.
purchase discount	An available discount taken by the purchaser for early payment of an invoice.
reference	A description you enter with transactions to produce a clear audit trail.
retained earnings	Net income kept in a corporation.
revenue	The amount charged to customers for goods sold or services rendered.
reversing entry	An entry that reverses an adjusting entry to aid in the recording of routine transactions in the next period.
sales discount	An available discount granted by the seller for early payment.

sales return and allowance A reduction in sales, resulting from the return of merchandise or a reduction in the original sales price.

salvage value The dollar value of an asset used in the business at the end of its useful life.

scroll Movement of information on a video screen to create room for additional information.

scroll arrow An arrow on either end of a scroll bar. Clicking a scroll arrow moves the document or directory one line. Pressing a scroll arrow scrolls the document continuously.

scroll bar A rectangular bar that may appear along the right or bottom of a window. Clicking or dragging in the scroll bar causes the view of the document to change.

scroll box The white box in a scroll bar. The position of the scroll box in the scroll bar indicates the position of the contents in the window relative to the entire document.

shift-click A technique that allows you to extend a selection by holding down the shift key while you make an additional selection.

source code A code defining a type of journal entry. For example, Cash Receipts.

State Unemployment Compensation Tax A state tax usually paid by the employer and used to provide temporary relief to those who become unemployed.

Straight-line Depreciation Method A depreciation method that allows for equal periodic charges to an expense over the estimated life of the asset.

system	A generic term referring to all hardware and software required for an individual program.
T account	A form of an account resembling the letter T.
title bar	The horizontal bar at the top of a window that shows the name of the window's contents and lets you move the window.
Trial Balance	A summary listing of the titles of accounts and their balances.
volume	A generic term describing a storage device such as a floppy disk or a hard disk drive.
year-to-date	The total balance of an account from the first fiscal period up to and including the current period.

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Peachtree Software®

MSA
The Software Company
Management Science America, Inc.
3445 Peachtree Road, N.E. 8th Floor
Atlanta, Georgia 30326

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